

**UNIVERSITY OF SOUTH CAROLINA**  
**COLUMBIA, SOUTH CAROLINA**

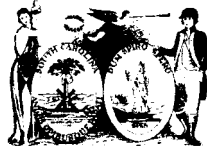
**STATE AUDITOR'S REPORT**

**JUNE 30, 2001**

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# State of South Carolina



## Office of the State Auditor

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STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

October 12, 2001

The Honorable Jim Hodges, Governor  
and  
Members of the Board of Trustees  
University of South Carolina  
Columbia, South Carolina

We have audited the accompanying basic financial statements of the University of South Carolina as of June 30, 2001, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Faculty House of Carolina, Incorporated, a component unit of the University, which represents less than one percent of both the assets and revenues of unrestricted current funds and auxiliary enterprises. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. We also did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (the Trust and the Practice Plan), component units of the University, which are presented as part of the primary entity in a discrete column on the balance sheet and on separate operating and cash flows statements in the accompanying financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Faculty House of Carolina, Incorporated, and of the Trust and the Practice Plan were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The Honorable Jim Hodges, Governor  
and  
Members of the Board of Trustees  
University of South Carolina  
October 12, 2001

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University of South Carolina are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of university funds and the financial position, revenues, expenses, and changes in net assets and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements include the financial activities of the Faculty House of Carolina, Incorporated, and the Trust and the Practice Plan, component units of the University. These financial statements do not include other agencies, institutions, departments, funds, or component units of the State of South Carolina primary government.

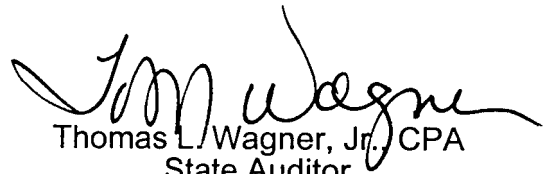
In our opinion, based on our audit and the reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University of South Carolina at June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2001, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 21, the University changed its method of accounting for and reporting nonexchange transactions to comply with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* effective for periods beginning after June 15, 2000. Under this standard, the University changed its timing of recognition for revenues, expenditures, and related assets and liabilities arising from voluntary nonexchange transactions, primarily certain grants and most gifts, and from government-mandated nonexchange transactions. Adjustments resulting from changes to comply with this Statement are required to be treated as adjustments of prior periods. In addition, as described in Note 21, the University corrected an error involving its application of accounting principles pertaining to the accounting for and reporting payments on installment notes payable to third-party lenders. Also, as discussed in Note 21, effective for their fiscal years beginning January 1, 2000, the Trust and the Practice Plan early implemented the provisions of GASB Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The adoption of this new standard resulted in financial statement reformatting but had no effect on the transaction classes or account balances reported for the current year and requires no restatement adjustment.

The Honorable Jim Hodges, Governor  
and  
Members of the Board of Trustees  
University of South Carolina  
October 12, 2001

These financial statements exclude the related entities described in Note 18 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.



Thomas L. Wagner, Jr., CPA  
State Auditor

## **BASIC FINANCIAL STATEMENTS**

**UNIVERSITY OF SOUTH CAROLINA**  
Balance Sheet  
University Funds and Discretely Presented Component Units  
June 30, 2001

ASSETS	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUNDS	COMPONENT UNITS	TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT			
Cash and Cash Equivalents	\$ 67,007,267	\$ 365,075	\$ 2,562,424	\$ 2,216,160	\$ 26,528,367	\$ 3,712,834	\$ -	\$ 3,525,281	\$ 9,531,515	\$ 115,448,923
Investments	-	-	-	4,248,313	-	-	-	-	6,416,071	10,664,384
Loan Participation Deposits	-	-	25,000	-	-	-	-	-	-	25,000
Accounts Receivable - Net	6,348,892	-	-	-	-	-	-	2,270,153	-	8,619,045
Pledges Receivable	1,257,000	-	-	-	-	-	-	-	-	1,257,000
Student Loans Receivable - Net	-	-	17,390,640	-	-	-	-	-	-	17,390,640
Notes Receivable	6,150,000	-	-	13,793,910	-	-	-	-	-	19,943,910
Patients Accounts Receivable - Net	-	-	-	-	-	-	-	-	2,831,960	2,831,960
Grants and Contracts Receivable:										
Federal	-	15,628,548	-	-	-	-	-	-	-	15,628,548
State	-	1,224,984	-	-	-	-	-	-	-	1,224,984
Local	-	56,786	-	-	-	-	-	-	-	56,786
Non-Governmental	-	4,936,206	-	-	-	-	-	-	-	4,936,206
Private Gifts Receivable - Restricted	-	2,910,591	-	-	-	-	-	-	-	2,910,591
Accrued Interest/Endowment										
Income Receivable	2,239,590	681,446	26,881	1,148,671	227,820	73,974	-	7,666	-	4,406,048
Capital Improvement Bond										
Proceeds Receivable	-	-	-	-	55,764,258	-	-	-	-	55,764,258
Other Receivables	-	-	-	-	-	-	-	-	-	-
Prepaid Items	1,747,683	64,217	-	-	-	-	-	-	861,416	861,416
Inventories	2,185,908	-	-	-	-	-	-	-	30,712	1,842,612
Due From Other Funds	11,537,714	-	-	-	-	-	-	-	-	2,185,908
Unamortized Bond Discount	-	-	-	-	-	583,339	-	-	-	11,537,714
Cash Surrender Value of Life Insurance	-	-	-	1,975,988	-	-	-	-	-	583,339
Land	-	-	-	-	-	-	-	-	-	1,975,988
Buildings and Improvements	-	-	-	-	-	-	39,499,423	-	-	39,499,423
Furniture, Fixtures, Equipment	-	-	-	-	-	-	632,491,517	-	-	632,491,517
Library Materials	-	-	-	-	-	-	113,244,028	-	5,555,181	118,799,209
Construction in Progress	-	-	-	-	-	-	112,629,119	-	-	112,629,119
Leasehold Interest and Improvements	-	-	-	-	-	-	41,602,355	-	-	41,602,355
Accumulated Depreciation	-	-	-	-	-	-	1,168,273	-	10,439,496	11,607,769
Advance to Other Funds	-	-	-	595,000	-	-	-	-	(5,995,953)	(5,995,953)
Other Assets	-	-	-	134,750	-	-	-	-	-	595,000
<b>Total Assets</b>	<b>\$ 98,474,054</b>	<b>\$ 25,867,853</b>	<b>\$ 20,004,945</b>	<b>\$ 24,112,792</b>	<b>\$ 82,520,445</b>	<b>\$ 4,370,147</b>	<b>\$ 940,634,715</b>	<b>\$ 5,803,100</b>	<b>\$ 29,685,825</b>	<b>\$ 1,231,473,876</b>

**UNIVERSITY OF SOUTH CAROLINA**  
Balance Sheet  
University Funds and Discretely Presented Component Units  
June 30, 2001

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUNDS	COMPONENT UNITS	TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT			
<b>LIABILITIES AND FUND BALANCES</b>										
Accounts Payable	\$ 7,120,800	2,308,085	\$ 31,642	\$ -	\$ 5,510,625	\$ -	\$ -	\$ 2,108,002	\$ 1,586,463	\$ 18,665,617
Accrued Interest Payable	-	-	-	-	-	822,091	-	-	-	822,091
Accrued Payroll and Related Liabilities	6,460,439	620,005	-	-	-	-	-	-	-	7,080,444
Student Deposits	656,344	-	-	-	-	-	-	-	-	656,344
Unearned Student Revenues	2,325,745	-	-	-	-	-	-	-	-	2,325,745
Retainage Payable	-	-	-	-	1,286,747	-	-	-	-	1,286,747
Deferred Revenues	9,868,729	-	-	-	-	1,210,106	-	-	-	11,078,835
Due to Other Funds	-	11,537,714	-	-	-	-	-	-	-	11,537,714
Advance From Other Funds	-	-	-	-	-	-	595,000	-	-	595,000
Capital Lease Obligations	-	-	-	-	-	-	-	-	413,738	413,738
Installment Notes Payable	-	-	-	-	-	-	1,068,307	-	-	1,068,307
Bond Anticipation Notes Payable	-	-	-	-	-	-	11,250,000	-	-	11,250,000
Bonds Payable	-	-	-	-	84,707	648,760	87,996,533	-	11,385,000	100,115,000
Accrued Compensated Absences	16,500,236	795,312	-	-	-	-	-	-	695,776	17,991,324
Accrued Retirement Contributions Payable	-	-	-	-	-	-	-	-	28,403	28,403
Funds Held for Others	-	-	-	-	-	-	-	3,695,098	-	3,695,098
Other Liabilities	217,108	-	4,700	39,677	-	-	-	-	-	261,485
<b>Total Liabilities</b>	43,149,401	15,261,116	36,342	39,677	6,882,079	2,680,957	100,909,840	5,803,100	14,109,380	188,871,892
<b>Total Fund Balances</b>	55,324,653	10,606,737	19,968,603	24,073,115	75,638,366	1,689,190	839,724,875	-	15,576,445	1,042,601,984
<b>Total Liabilities and Fund Balances</b>	\$ 98,474,054	\$ 25,867,853	\$ 20,004,945	\$ 24,112,792	\$ 82,520,445	\$ 4,370,147	\$ 940,634,715	\$ 5,803,100	\$ 29,685,825	\$ 1,231,473,876

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY OF SOUTH CAROLINA**  
Statement of Changes in Fund Balances  
For the Year Ended June 30, 2001

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
<b>Revenues and Other Additions</b>								
Unrestricted Current Fund Revenues	\$ 491,193,433	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 491,193,433
State Appropriations - Restricted	-	20,615,142	-	-	-	-	-	20,615,142
State Capital Improvement Bond Proceeds	-	-	-	-	22,480,000	-	-	22,480,000
U.S. Government Advance	-	-	239,071	-	-	-	-	239,071
Federal Grants and Contracts - Restricted	-	92,519,485	-	-	310,143	140,813	-	92,970,441
State Grants and Contracts - Restricted	-	15,563,887	-	-	-	-	-	15,563,887
Local Grants and Contracts - Restricted	-	872,575	-	-	1,315,034	-	-	2,187,609
Non-Governmental Grants and Contracts - Restricted	-	27,791,565	-	-	-	-	-	27,791,565
Private Gifts - Restricted	-	6,922,104	-	49,839	1,523,298	800,000	3,009,817	12,305,058
Income on Endowment Assets - Restricted	-	444,656	-	546,061	-	-	-	990,717
Interest Income - Restricted	-	103,219	161,358	-	2,084,750	385,003	-	2,734,330
Interest on Loans Receivable - Restricted	-	-	385,910	-	-	-	-	385,910
Expended for Plant Facilities (Including \$17,050,703 Charged to Current Funds Expenditures and Capitalized Interest of \$84,894)	-	-	-	-	-	-	56,939,986	56,939,986
Plant Assets Acquired by Installment Notes	-	-	-	-	-	-	1,174,556	1,174,556
Retirement of Indebtedness (Including \$95,000 Charged to Current Funds Expenditures)	-	-	-	-	-	-	6,998,739	6,998,739
Seat Assessment Fees	-	-	-	-	-	1,166,559	-	1,166,559
Student Tuition and Fees	-	-	-	-	-	9,068,496	-	9,068,496
Realized and Unrealized Gains and Losses on Investments, Net	-	-	-	183,687	-	-	-	183,687
Increase in Cash Surrender Value of Life Insurance	-	-	-	125,726	-	-	-	125,726
Other Additions	-	165,087	227,350	-	11,669	-	-	404,106
<b>Total Revenues and Other Additions</b>	<b>491,193,433</b>	<b>164,997,720</b>	<b>1,013,689</b>	<b>905,313</b>	<b>27,724,894</b>	<b>11,560,871</b>	<b>68,123,098</b>	<b>765,519,018</b>
<b>Expenditures and Other Deductions</b>								
Education and General Expenditures	407,667,739	147,536,290	-	-	-	-	-	555,204,029
Auxiliary Enterprises Expenditures	63,009,675	-	-	-	-	-	-	63,009,675
Indirect Costs Recoveries Remitted to State General Fund	815,072	-	-	-	-	-	-	815,072
Indirect Costs Recovered	-	13,677,663	-	-	-	-	-	13,677,663
Refund of State Appropriations	-	2,857	-	-	-	-	-	2,857
Bond Issuance and Other Costs	-	-	-	-	46,056	16,198	-	62,254
Loan Cancellations and Write-Offs	-	-	251,494	-	-	-	-	251,494
Administrative and Collections Costs	-	-	234,623	-	-	-	-	234,623
Refunded to Grantors	-	-	39,185	-	-	-	-	39,185
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$4,038,144)	-	-	-	-	43,842,533	-	-	43,842,533
Retirement of Indebtedness	-	-	-	-	-	6,903,739	-	6,903,739
Installment Notes Additions	-	-	-	-	-	-	1,174,556	1,174,556
Interest and Other Charges on Indebtedness	-	-	-	-	-	5,545,054	-	5,545,054
Disposals of Plant Facilities	-	-	-	-	-	-	7,049,631	7,049,631
<b>Total Expenditures and Other Deductions</b>	<b>471,492,486</b>	<b>161,216,810</b>	<b>525,302</b>	<b>-</b>	<b>43,888,589</b>	<b>12,464,991</b>	<b>8,224,187</b>	<b>697,812,365</b>

**UNIVERSITY OF SOUTH CAROLINA**  
Statement of Changes in Fund Balances  
For the Year Ended June 30, 2001

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
<b>Transfer Among Funds - Additions/(Deductions):</b>								
Mandatory:								
Principal and Interest	(4,852,800)	-	-	-	-	4,852,800	-	-
Loan Fund Matching Grant	(79,690)	-	79,690	-	-	-	-	-
Nonmandatory:								
Transfers from Current Funds:								
Restricted	266,888	(2,747,428)	-	-	2,480,540	-	-	-
Unrestricted	(8,969,227)	-	-	44,858	8,259,160	665,209	-	-
Transfer from Loan Funds	1,183	-	(1,183)	-	-	-	-	-
Transfer from Endowment and Similar Funds	2,921,449	-	-	(2,921,449)	-	-	-	-
Transfer from Retirement of Indebtedness Plant Funds	-	-	-	-	4,326,184	(4,326,184)	-	-
Transfers of Debt Representing Proceeds Used for Plant Additions	-	-	-	-	2,539,009	-	(2,539,009)	-
<b>Total Transfers</b>	<b>(10,712,197)</b>	<b>(2,747,428)</b>	<b>78,507</b>	<b>(2,876,591)</b>	<b>17,604,893</b>	<b>1,191,825</b>	<b>(2,539,009)</b>	<b>-</b>
<b>Net Increase (Decrease) for the Year</b>	<b>8,988,750</b>	<b>1,033,482</b>	<b>566,894</b>	<b>(1,971,278)</b>	<b>1,441,198</b>	<b>287,705</b>	<b>57,359,902</b>	<b>67,706,653</b>
<b>Fund Balance at Beginning of Year (As Restated - Note 21)</b>	<b>46,335,903</b>	<b>9,573,255</b>	<b>19,401,709</b>	<b>26,044,393</b>	<b>74,197,168</b>	<b>1,401,485</b>	<b>782,364,973</b>	<b>959,318,886</b>
<b>Fund Balance at End of Year</b>	<b>\$ 55,324,653</b>	<b>\$ 10,606,737</b>	<b>\$ 19,968,603</b>	<b>\$ 24,073,115</b>	<b>\$ 75,638,366</b>	<b>\$ 1,689,190</b>	<b>\$ 839,724,875</b>	<b>\$ 1,027,025,539</b>

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY OF SOUTH CAROLINA**  
Statement of Current Funds Revenues, Expenditures, and Other Changes  
For the Year Ended June 30, 2001

	UNRESTRICTED				
	EDUCATIONAL AND GENERAL	AUXILIARY ENTERPRISES	TOTAL	RESTRICTED	TOTAL
<b>Revenues:</b>					
Student Tuition and Fees	\$ 144,374,518	\$ 3,224,282	\$ 147,598,800	\$ -	\$ 147,598,800
State Appropriations	234,007,680	-	234,007,680	20,518,036	254,525,716
Federal Grants and Contracts	13,445,486	-	13,445,486	77,763,912	91,209,398
State Grants and Contracts	966,827	-	966,827	13,207,574	14,174,401
Local Grants and Contracts	1,213,855	-	1,213,855	693,904	1,907,759
Non-Governmental Grants and Contracts	1,823,297	-	1,823,297	28,276,032	30,099,329
Private Gifts	2,479,562	8,928,004	11,407,566	6,626,236	18,033,802
Endowment Income	369,090	94,155	463,245	237,516	700,761
Interest Income	865,134	1,955,388	2,820,522	55,135	2,875,657
Sales and Services of Educational and Other Activities	15,477,026	-	15,477,026	-	15,477,026
Sales and Services of Auxiliary Enterprises	-	55,956,424	55,956,424	-	55,956,424
Telephone Income	252,446	217,782	470,228	-	470,228
Royalty Income	64,120	335,313	399,433	-	399,433
Other Fees	2,191,395	651,295	2,842,690	-	2,842,690
Rental Income	396,567	708,414	1,104,981	-	1,104,981
Other Sources	788,448	406,925	1,195,373	157,945	1,353,318
<b>Total Current Revenues</b>	<b>418,715,451</b>	<b>72,477,982</b>	<b>491,193,433</b>	<b>147,536,290</b>	<b>638,729,723</b>
<b>Expenditures and Mandatory Transfers:</b>					
<b>Educational and General:</b>					
Instruction	206,767,081	-	206,767,081	1,893,954	208,661,035
Research	24,632,538	-	24,632,538	59,695,875	84,328,413
Public Service	11,481,567	-	11,481,567	43,836,268	55,317,835
Academic Support	53,216,589	-	53,216,589	39,634	53,256,223
Student Services	23,574,067	-	23,574,067	545,806	24,119,873
Institutional Support	35,337,570	-	35,337,570	55,831	35,393,401
Operation and Maintenance of Plant	37,634,390	-	37,634,390	65,698	37,700,088
Scholarships and Fellowships	15,023,937	-	15,023,937	41,403,224	56,427,161
<b>Total Educational and General Expenditures</b>	<b>407,667,739</b>	<b>-</b>	<b>407,667,739</b>	<b>147,536,290</b>	<b>555,204,029</b>
Mandatory Transfers for Loan Fund Matching Grants	79,690	-	79,690	-	79,690
<b>Total Educational and General</b>	<b>407,747,429</b>	<b>-</b>	<b>407,747,429</b>	<b>147,536,290</b>	<b>555,283,719</b>
<b>Auxiliary Enterprises:</b>					
Expenditures	-	63,009,675	63,009,675	-	63,009,675
Mandatory Transfers for Principal and Interest	-	4,852,800	4,852,800	-	4,852,800
<b>Total Auxiliary Enterprises</b>	<b>-</b>	<b>67,862,475</b>	<b>67,862,475</b>	<b>-</b>	<b>67,862,475</b>
<b>Total Expenditures and Mandatory Transfers</b>	<b>407,747,429</b>	<b>67,862,475</b>	<b>475,609,904</b>	<b>147,536,290</b>	<b>623,146,194</b>
<b>Other Transfers and Additions/(Deductions):</b>					
Nonmandatory Transfers In	6,874,930	-	6,874,930	-	6,874,930
Nonmandatory Transfers Out	(5,402,475)	(7,252,162)	(12,654,637)	(2,747,428)	(15,402,065)
Indirect Cost Recoveries Remitted to State	(815,072)	-	(815,072)	-	(815,072)
Refunds of State Appropriations	-	-	-	(2,857)	(2,857)
Excess of Restricted Receipts Over Transfers to Revenues	-	-	-	3,783,767	3,783,767
<b>Total Other Transfers and Additions/ (Deductions)</b>	<b>657,383</b>	<b>(7,252,162)</b>	<b>(6,594,779)</b>	<b>1,033,482</b>	<b>(5,561,297)</b>
<b>Net Increases/(Decreases) in Fund Balances</b>	<b>\$ 11,625,405</b>	<b>\$ (2,636,655)</b>	<b>\$ 8,988,750</b>	<b>\$ 1,033,482</b>	<b>\$ 10,022,232</b>

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY OF SOUTH CAROLINA**

Combined Statement of Revenues, Expenses, and Changes in Net Assets - Component Units  
For the Year Ended December 31, 2000

**Revenues:**

Patient Charges, Net of Contractual Adjustments and Refunds	\$ 22,066,799
Other Professional Income	7,473,901
Investment Income	744,755
Rental Income	151,399
Contributions to Trust from Other Sources	1,018,223
Other Income	1,971,489
	<hr/>
Total Revenues	33,426,566

**Expenses:**

Support of Medical School and Clinical Facilities	3,932,491
Operation of Clinical Facilities	26,949,208
Operation of Building and Equipment	2,213,062
Management and General	366,551
	<hr/>
Total Expenses	33,461,312

**Deficiency of Revenues over Expenses:** (34,746)

Other Comprehensive Income (Loss) -  
 Net Decrease in Unrealized Investment  
 Holding Gains (354,746)

Comprehensive Income (Loss) (389,492)

**Net Assets, Beginning of Year:** 15,965,937

**Net Assets, End of Year** \$ 15,576,445

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY OF SOUTH CAROLINA**  
 Combined Statement of Cash Flows - Component Units  
For the Year Ended December 31, 2000

**Cash Flows From Operating Activities**

Cash Receipts from Patients, Third-party Payors and Agencies	\$ 28,804,433
Cash Paid to Suppliers	(10,774,516)
Cash Paid for Faculty and Non-Faculty Compensation	(20,932,199)
Other Cash Receipts (Payments), Net	4,381,254
<b>Net Cash Provided by Operating Activities</b>	<b>1,478,972</b>

**Cash Flows from Capital and Related Financing Activities**

Proceeds from Issuance of Long-term Debt	10,600,000
Principal Payments on Capital Lease and Other Long-term Debt	(5,128,892)
Interest Payments on Capital Lease and Other Long-term Debt	(493,730)
Cash Paid for Property and Equipment	(965,957)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>4,011,421</b>

**Cash Flows from Investing Activities**

Proceeds from Sales and Maturities of Investments	5,605,808
Cash Paid for Investments	(6,496,582)
Cash Received for Interest and Dividends	645,776
<b>Net Cash Used by Investing Activities</b>	<b>(244,998)</b>

**Net Increase in Cash and Cash Equivalents** 5,245,395

**Cash and Cash Equivalents, Beginning of Year** 4,286,120

**Cash and Cash Equivalents, End of Year** \$ 9,531,515

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Deficiency of Revenues over Expenses	\$ (34,746)
Adjustments to Reconcile Deficiency of Revenues over Expenses to Net Cash Provided by Operating Activities:	
Depreciation and Amortization of loan costs	825,126
(Increase) Decrease in Assets:	
Patient Accounts Receivable	47,592
Other Receivables	514,763
Prepaid Expenses and Other Assets	55,466
Increase (Decrease) in Liabilities:	
Accounts and Accrued Interest Payable	(32,789)
Accrued Compensated Absences	114,627
Accrued Retirement	(11,067)

**Net Cash Provided by Operating Activities** \$ 1,478,972

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Governmental Accounting Standards Board (GASB) is the recognized standard - setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The financial statements of the University of South Carolina have been prepared in accordance with GAAP as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. The statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows.

***Reporting Entity***

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of these powers. Based on these criteria, the University has determined this financial reporting entity includes the University (a primary entity) with all of its component units blended therein.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Primary Entity***

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University is composed of the Columbia campus, the School of Medicine, and seven regional campuses. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is composed of three ex-officio members which include the Governor (or his designee), the State Superintendent of Education, and the President of the Greater University of South Carolina Alumni Association; sixteen members elected by general vote of the General Assembly; and one at-large member appointed by the Governor. The Board is the governing body of the University and administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, and other changes of university funds and the financial position, changes in net assets, and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

#### ***Component Units Blended in Primary Entity***

Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements.

##### ***(1) In Discrete Column and Separate Financial Statement Presentations***

The University of South Carolina School of Medicine Educational Trust (the "Trust") and Clinical Faculty Practice Plan (the "Practice Plan") are component units of the University which are blended in the primary entity in a discrete column on the balance sheet. Separate statements of revenues, expenses, and changes in net assets and cash flows are presented for these component units. The Trust is organized and operates exclusively for the benefit of the University's School of Medicine in order to augment and aid education, service, research and development

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Component Units Blended in Primary Entity (Continued)***

***(1) In Discrete Column and Separate Financial Statement Presentations (Continued)***

in the health sciences and in the fields of preventive and curative medicine. In conjunction with these functions, the Trust oversees the Practice Plan which exists to provide high quality health care in conjunction with enhanced teaching opportunities. The School of Medicine has reserved the right to terminate the Practice Plan at any time upon the vote of two-thirds of the participating clinical faculty members and upon the approval of the Dean of the School of Medicine and the University's Board of Trustees. However, in conjunction with the issuance of certain revenue bonds (See Note 4.), the University has agreed not to permit the termination of the Practice Plan at any time prior to full repayment, including interest, of such bonds.

The Trust is considered a component unit because the University has appointment authority of its board. The Practice Plan is considered a component unit because it is governed by the board of directors of the Trust. Due to the controlled governance by the University and the primary purposes of the Trust and Practice Plan to provide services almost entirely to the University, they must be presented as blended component units in accordance with GASB Statement No. 14 *The Financial Reporting Entity* guidance. The transactions between the University and these component units will not agree in the accompanying financial statements because they have different fiscal year-ends. All activity reported for the component units including the information shown in the Notes to the Financial Statements is as of and for the year ended December 31, 2000. Complete financial statements of the Trust and the Practice Plan can be obtained by writing the administrative office of the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina, 29202.

***(2) Blended Within University Funds***

The Faculty House of Carolina, Incorporated (the "Faculty House") a not-for-profit corporation, is a component unit of the University which is blended in the primary entity as an auxiliary enterprise in the unrestricted current funds group. The Faculty House operates on the Columbia campus for the benefit of the University as a private dining and social activities club for members.

The Faculty House is considered a component unit because the University has appointment authority of its board. All activity reported for the Faculty House is as of and for the year ended August 31, 2000. Complete financial statements of the Faculty House can be obtained at the administrative office of the Faculty House of Carolina, Inc., McCutchen House, University of South Carolina, Columbia, South Carolina, 29208.

***Presentation of Component Units***

Some component units, despite being legally separate, are so intertwined with the University that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable university fund groups as if they were balances and transactions of the primary entity or reported in discrete columns and included in the "primary entity" totals. For those blended component units not converted to the AICPA college and university model, separate statements of revenues, expenses, and changes in net assets and of cash flows are presented.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Presentation of Component Units (Continued)***

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns or on separate financial statements of the primary entity. The columns and financial statements are labeled "component units."

***Basis of Accounting - University Funds***

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant and equipment assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for academic sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Transfers are amounts moved between fund groups/subgroups to be used for the objectives of the recipient fund. Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant; agreements to match gifts and grants; or required matching of certain federal loan programs. Other interfund transfers are made at the discretion of the governing body and are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant and other capital assets used in operations, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations; purchases and normal replacement of movable equipment, computer software and library materials; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

***Basis of Accounting - Discretely Presented Component Units***

The University's discretely presented component units conduct business-like activities similar to those found in the private sector. They are financed primarily through user charges. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of operating results, financial position, and cash flows.

These component units are considered governmental in nature and, therefore, are subject to the governmental accounting model. The accounting policies of these entities conform to GAAP applicable to governmental enterprise funds as prescribed by GASB. Effective for the fiscal year beginning January 1, 2000, these component units early-implemented the provisions of GASB Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments*. For additional information about the accounting change, see Note 21. The separately issued component unit financial statements are not presented in accordance with governmental GAAP. The combined statement of net assets (presented discretely on the University's balance sheet) does not report net assets in the

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Basis of Accounting - Discretely Presented Component Units (Continued)***

prescribed three broad components of invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted. Also, the component units' statement of financial position reports all unrestricted net assets as designated (as detailed in Note 25 of this report) which is inappropriate for enterprise funds under governmental GAAP. The statement of revenues, expenses, and changes in net assets does not report revenues and expenses using the classified balance presentation in operating and nonoperating components in accordance with standards for enterprise funds. The Statement of Cash Flows included the following GAAP errors and omissions. An adjustment was not made to reclassify interest receipts and payments reported as operating revenue and expense from the accrual basis to cash basis. The increases/decreases in account balances on the Statement of Net Assets between fiscal years 1999 and 2000 differ from the amounts shown on the Statement of Cash Flows for other receivables and accounts and accrued interest payable. Similar changes in account balances for investments, fixed assets, and accrual basis income and expense differ from reported cash flows. The noncash component of these changes are not shown on the Statement of Cash Flows as required by governmental GAAP. Depreciation and amortization expense on the Statement of Cash Flows also does not reconcile to changes in account balances because the components of this expense are not separately identified for depreciation, amortization, and depreciation written off for disposal of fixed assets. Other cash receipts/payments and categories of long term debt are not reported separately in accordance with governmental GAAP.

Since the entity is self-supporting, it has adopted paragraph 7 of GASB Statement 20 pertaining to enterprise funds and applies all FASB pronouncements except those that conflict with GASB. This reporting treatment is not in accordance with governmental GAAP. Paragraph 17 of GASB Statement 34 requires business-type activities to be reported based on all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements:

- a. Financial Accounting Standards Board (FASB) Statements and Interpretations
- b. Accounting Principles Board (APB) Opinions
- c. Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

Business-type activities may also apply FASB pronouncements issued after November 30, 1989, as provided in paragraph 7 of GASB Statement 20, as amended by Statement 34.

GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* became effective when the Trust and Practice Plan adopted the accrual provisions related to their early implementation of GASB Statement 34. However, these component units did not implement GASB Statement 33 as required by governmental GAAP. See Note 16 - Deposits and Investments and Note 4 - Bonds Payable and Bond Anticipation Notes Payable - for other Trust and Practice Plan GAAP departures.

These entities use the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Accounting - University Funds***

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use the funds in achieving any of its institutional purposes.

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets and all unrealized gains and losses resulting from changes in the fair value of investments are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or unless the endowment agreement requires the income to be added to the corpus.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted current funds. Unrestricted current funds include but are not limited to all funds received for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Restricted current funds are those available for financing operations but which are limited by donors and other external agencies to specific purposes, programs, departments, or schools. Current funds revenues include (1) all unrestricted gifts, grants and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include resources that are restricted by external persons or agencies to transactions or purposes accounted for in other than current funds.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Accounting - University Funds (Continued)***

Additional policy disclosures regarding revenue recognition are described elsewhere in this note under Basis of Accounting - University Funds, Gifts and Other Nonexchange Transactions, and Deferred Revenues and Unearned Student Revenues and in Note 17 - Pledges of Gifts. Unrestricted resources other than gifts and other nonexchange transactions are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year.

Auxiliary enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include athletics, housing, bookstores, food services, student health services, parking operations, coliseum operations, and the Faculty House. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$14,030,313 at June 30, 2001.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, charges for collectibility allowances, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes endowment funds, term endowment funds, and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Some endowments require the income to be used for specified purposes and others contain no such restrictions. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized and unrealized gains/losses attributable to investment transactions.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally designated solely for plant improvements or debt

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Accounting - University Funds (Continued)***

service related to plant assets are recorded directly in the University's unexpended plant or retirement of indebtedness plant fund as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically accumulated for interest and principal payments, debt service reserve funds, unamortized balances of bonds payable discounts, and the portion of debt related thereto, interest and other debt service charges related to plant fund indebtedness, and federal interest subsidies. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students and of student organizations and other groups directly associated with the University, neither of which receives University funding.

***Fund Accounting - Discretely Presented Component Units***

The University's discretely presented component units use proprietary fund accounting. The separately issued component unit financial statements report that the funds of the Trust and Practice Plan are unrestricted, comprised of four designated groups. The four groups relate to support of the medical school and clinical facilities, operation of clinical facilities, operation of buildings and equipment of the Trust and Practice Plan, and educational trust general operations. Those funds are not presented in accordance with governmental GAAP. (See Basis of Accounting-Discretely Presented Component Units elsewhere in Note 1 for additional information regarding the departures from GAAP.)

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

***Indirect Cost Recoveries***

The University records restricted current funds revenue for governmental and non-governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Federal training grants and contracts whose annual award is two hundred thousand dollars or less are also exempt from the requirement to remit recoveries to the State General Fund.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Compensated Absences***

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds or restricted current funds, as applicable. Restricted current funds reports the portion of the liability attributable to its employees contracted to work solely for the Practice Plan because the University will be reimbursed by the Practice Plan for the amount. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

***Investment in Plant***

Physical plant and equipment, except for equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for payments of principal and interest on certain library collection installment agreements are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid. Payments of principal and interest on the University's other installment contracts are recorded in the applicable educational expenditure categories of the current funds group as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets in "Buildings and Improvements" and values them at cost.

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup when capitalizable costs are \$30,000 or more. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Capitalized computer software includes the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Investment in Plant (Continued)***

that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. The costs of computer software developed or obtained for internal use is amortized on a straight-line basis over its estimated useful life.

All library books, periodicals, microfilms, and other library materials regardless of cost/fair value are recorded at cost or fair market value at the date of donation. Library books deletions are written off at year-end at average cost based on the actual number of volumes deleted. The University capitalizes equipment with a unit value in excess of \$5,000 and computer software with an acquisition unit value in excess of \$100,000 and having expected lives in excess of two years. Applying these criteria, currently the University has no capitalized software. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts and in the investment in plant funds subgroup.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

#### ***Information Technology Costs***

Noncapitalized information technology (IT) costs are not budgeted, and reported by benefiting functional expenditure classification but those related to the college's missions of instruction, research, and public service are budgeted and reported in the academic support category and other IT costs are reported in institutional support.

#### ***Capitalized Interest***

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup include such interest costs.

#### ***Bond Discounts and Amortization***

Deferred charges consisting of bond discounts are reported in the asset section of the balance sheet of the retirement of indebtedness plant funds subgroup and are amortized as an element of interest and other charges on indebtedness over the lives of the applicable bond issues using the straight-line method.

#### ***Deferred Revenues and Unearned Student Revenues***

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for athletic events which amounts have not been earned. Also included are amounts arising from gifts and other voluntary nonexchange transactions received before eligibility requirements are met, which are discussed elsewhere in this note in Gifts and Other Nonexchange Transactions. Unearned student revenues consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. In retirement of indebtedness plant funds subgroup, deferred revenues consist of seat assessment fees related to restricted receipts collected in advance for athletic events.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Student Deposits***

Student deposits represent security deposits for possible room damage and key loss and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

***Fee Waivers***

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures.

The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

***Educational and Other Activities Revenue***

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from charges for continuing education programs. "Other Activities" revenues in this account include those from copier machines, the University Press, and computer center activities.

***Gifts and Other Nonexchange Transactions***

Nonexchange transactions involving financial or capital resources are transactions in which the University either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The primary types of nonexchange transactions the University engages in are "voluntary nonexchange transactions" (certain grants and donations) and "government-mandated nonexchange transactions".

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a. The recipient has the characteristics specified by the provider.
- b. The recipient has met the time requirements specified by the provider (i.e., the period when the resources are required to be used (e.g., disbursed or consumed) or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider).
- c. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
- d. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Gifts and Other Nonexchange Transactions (Continued)***

Promises of cash or other assets from nongovernmental entities are recognized when all eligibility requirements are met, provided the promise to give is verifiable and the resources are measurable and probable of collection.

Gifts are a type of nonexchange transaction. Gifts include resources donated to the University for unrestricted or restricted institutional purposes. Unrestricted gifts are recognized as revenue in unrestricted current funds when all applicable eligibility requirements have been met. Restricted current funds gifts are recognized as additions to fund balances in the statement of changes in fund balances when the gift resources are received or promised (i.e., the earlier of when the donor announces the gift or notifies the University of the gift if the promise is verifiable and the resources are measurable and probable of collection or of when the University receives the monies). Restricted current funds gifts are recognized as revenue on the statement of current funds to the extent that such funds are expended for the restricted purposes during the current year and met all eligibility requirements. Other restricted gifts are recognized as additions in the applicable fund group/subgroup appropriate to the restricted purpose for which the resources were provided when received or promised (i.e., the earlier of when the donor announces the gift or notifies the University of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the University receives the monies).

Unrestricted resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenues by recipients.

***Prepaid Items***

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

***Fund-raising Costs***

The costs of fund-raising activities are reported in the institutional support functional category and do not include management and general or other program costs of the University. The costs of incidental fund-raising activities conducted in conjunction with other program activities are not separately reported. Incidental fund-raising costs are included in the related program expenditures of the appropriate functional category.

***Cash and Cash Equivalents***

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Cash and Cash Equivalents (Continued)***

repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 16.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. It reports its deposits in the special deposits accounts at fair value. Investments held by the pool are reported at fair value.

Interest earned by the University's special deposit accounts is posted at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Reported interest/investment income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are accrued and allocated at year end based on the percentage ownership in the pool.

***Rebatable Arbitrage***

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University has no rebatable arbitrage liability at June 30, 2001.

***Intraentity Transactions and Balances***

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated. Interfund transactions between discretely presented component units have not been eliminated. However, transfers between discretely presented component units are considered operational in nature and are included in excess of revenues over expenditures.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Totals (Memorandum Only) Columns***

Amounts in the "Totals (Memorandum Only)" columns of the financial statements present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except material expenditure reimbursements, transfers within unrestricted current funds from auxiliary enterprises to support educational and general activities, interfund receivables and payables within the Trust and Practice Plan operations and support funds (See Note 22), and certain other intraentity transactions and balances between the University and component units blended in the University's funds.

#### ***Discretely Presented Component Unit Accounting Policies***

Significant accounting policies of the University's discretely presented component units are described below. Whereas, general disclosures for such entities are separately identified within each applicable note.

#### ***Patient Charges and Accounts Receivable - Component Units***

The Practice Plan, through its affiliation with a local hospital which serves as a regional medical and trauma center, serves a number of indigent patients who are not covered under any type of insurance. Certain gross patient charges are subject to adjustment by third party reimbursers and a percentage of patients do not meet their obligations. Therefore, Practice Plan patient accounts receivable are recorded net of estimated indigent care and contractual adjustments as well as net of an allowance for doubtful accounts.

#### ***Interfund Support - Component Units***

In accordance with the terms of the Practice Plan agreement, as amended, certain percentages of gross Practice Plan professional revenues are contributed to the Dean's Academic Enhancement subfund of the Trust and to the Departmental Operations subfund. The percentages, currently 7.0 percent and 1.0 percent, are authorized by the Board of Trustees of the University. The contributions in 2000 were \$2,105,983 and \$300,854. In addition, operating units of the Trust and Practice Plan, which utilize building space, transfer funds in lieu of rent payments. Additionally, net cash-basis revenues are contributed to the Trust by the Practice Plan annually. The transfer for support was \$1,782,996 in 2000. To the extent that total amounts due from the Practice Plan to the Trust have not been deposited by the Trust as of December 31, such amounts are reflected in the due to/from balance sheet accounts. Condensed component unit financial statements are presented in Note 22.

#### ***Buildings and Equipment - Component Units***

The Trust and the Practice Plan assets are recorded at historical cost. Depreciation is recognized on these assets over their estimated useful lives as follows:

	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings	Straight-line	40
Leasehold Improvements	Straight-line	31.5-39
Furniture and Office Equipment	Double-declining balance	5-7
Medical Equipment	Double-declining balance	7

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Buildings and Equipment - Component Units (Continued)***

Depreciation recognized in the plant funds of the Trust and the Practice Plan during the current year totals \$823,722 and is recorded in the operation of building and equipment account on the statement of revenues, expenses, and changes in net assets.

#### ***Amortization - Component Units***

Loan costs related to the Trust's acquisition of two buildings are being amortized using the straight-line method over the lives of the respective loans as follows:

Medical Park II	5 years
Medical Park IV	20 years

Amortization recognized in the current year totals \$1,404 and is recorded in the operation of building and equipment account on the statement of revenues, expenses, and changes in net assets. The unamortized balance at December 31, 2000, is \$15,427 and is reported as other assets on the balance sheet.

#### ***Compensated Absences - Component Units***

The Trust and the Practice Plan reimburse the University of South Carolina for the salaries and fringe benefits of non-faculty personnel. Additionally, funds are contributed to the University of South Carolina in support of the salaries of certain faculty personnel. These organizations have various policies concerning the accrual of vested vacation compensation. The liability for accrued compensated absences as of December 31, 2000, reflects the value of such compensation earned but not yet utilized, including fringe benefits.

#### ***Income Taxes - Component Units***

The Trust is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation within the meaning of Section 509(a). A tax return is filed to report the operations of the Trust and the departments of the Practice Plan.

#### ***Cash and Cash Equivalents - Component Units***

The amounts shown for the Trust and the Practice Plan in the cash flows statement as "cash and cash equivalents" represent balances in demand deposit bank accounts and money market funds and certificates of deposit having original maturities of three months or less.

#### ***Investments and Other Comprehensive Income - Component Units***

Investments consist of long-term certificates of deposit, obligations of the U.S. Treasury, equity securities, and mutual funds. Investments in marketable debt and equity securities are considered to be available for sale, therefore, they are carried at fair value. The net change in the cumulative balance of unrealized gains/losses on investments is reported in "other comprehensive income" on the statement of revenues, expenses, and changes in net assets and the cumulative net amount is reflected as a separate component of restricted net assets.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Other Professional Income - Component Units***

Other professional income consists of revenue earned by the participants in the Practice Plan for the provision of medically-related services other than Practice Plan patient care. The primary sources of this revenue are contractual arrangements with eleemosynary organizations.

#### ***Other Income - Component Units***

Other income consists primarily of revenue received by participating clinics in the form of support to defray operating expenses.

#### ***Comprehensive Income - Component Units***

The Trust reports comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in the statement of revenues, expenses, and changes in net assets.

### **NOTE 2 - STATE APPROPRIATIONS**

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds column of Sections 5KA through 5KH of Part IA of the 2000-2001 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2001:

Original Appropriation	\$195,873,159
Less Mid-Year Reduction	(2,175,505)
State Budget and Control Board Allocations:	
Employee Base Pay Increases and	
Related Employee Benefits (Proviso 63C.9.)	7,675,303
Deferred Compensation Matching Funds (Proviso 72.44.)	656,154
Appropriation Allocations from the State	
Commission on Higher Education:	
Performance Funding	29,831,522
Performance Improvement Award	32,100
Palmetto Fellows Scholarships	3,577,277
Need-Based Student Grants	2,627,950
Life Scholarships	12,604,474
Academic Endowment Incentive Funding	907,625
Access and Equity	186,594
Research Initiative Grant	482,016

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 2 - STATE APPROPRIATIONS (CONTINUED)**

Supplemental Appropriations from Fiscal Year 2000 Surplus

State General Fund Revenues (2000 Act R453 Part 1A, Sections 2 and 3):

Baruch Institute National Estuarine Research	231,113
Small Business Development Center	191,398
Law Library	55,926

Capital Reserve Fund Appropriation for

Materials Research Science and Engineering Center (2000 Bill 4776)	1,000,000
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Transfers from the Department of Revenue of Education

Improvement Act funding (Part 1A, Section 1X.K. and Proviso 1A.32. of the 2001 Appropriation Act):

Writing Improvement Network	318,240
S.C. Geographic Alliance	198,671
School Improvement Council Project	148,805

Transfer from the Department of Health and Environmental Control

for the Lancaster-Kershaw Rural Health Center Annualization	<u>200,000</u>
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**State Appropriations Revenue-Accrual Basis**

**\$254,622,822**

State appropriations revenue and additions are reported in the following funds:

Unrestricted Current Funds	\$234,007,680
Restricted Current Funds	<u>20,615,142</u>

**\$254,622,822**

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 2 - STATE APPROPRIATIONS (CONTINUED)**

The University recognized the following amounts from the State Commission on Higher Education (CHE) as state grants and contracts revenue additions in the restricted current funds subgroup.

Manufacturing Extension Partnership	\$2,300,000
Research Incentive Grants	772,686
Centers for Excellence Program	233,704
Higher Education Awareness Program	5,235
College and University Technology Initiative	504,497
Review Process for CHE Research Grant Program	40,000

In addition, the University received from the State Commission on Higher Education \$2,500,000 for the South Carolina Experimental Program to Stimulate Competitive Research (EPSCOR) Program and \$600,000 for the South Carolina Alliance for Minority Participation Program (SCAMP). The University as fiscal agent accounted for the programs through its agency funds. The University recognized revenues of \$945,711 from the EPSCOR Program and \$182,727 from the SCAMP Program which are reported as state grants and contracts revenue in restricted current funds group.

### **NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS**

In fiscal year 2001 and in prior years, the State authorized funds for improvements and expansion of various facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 2001, follows:

<u>Act</u>	<u>Total</u> <u>Authorized</u>	<u>Amount</u> <u>Drawn in</u> <u>Prior Years</u>	<u>Amount Drawn</u> <u>in Fiscal</u> <u>Year Ended</u> <u>June 30, 2001</u>	<u>Balance</u> <u>Authorized</u> <u>June 30, 2001</u>
Act 522 of 1992	\$ 39,560,130	\$39,537,827	\$ 11,699	\$ 10,604
Act 111 of 1997	31,541,065	14,757,814	2,712,132	14,071,119
Act A28 of 1999	27,000,000	1,341,511	6,455,954	19,202,535
Act 1 of 2001	<u>22,480,000</u>	<u>-</u>	<u>-</u>	<u>22,480,000</u>
<b>Total</b>	<u>\$120,581,195</u>	<u>\$55,637,152</u>	<u>\$9,179,785</u>	<u>\$55,764,258</u>

The entire balance is reported in the unexpended plant funds subgroup. The University is not obligated to repay these funds to the State.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES**

#### ***Bonds Payable***

At June 30, 2001, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 2001 Balance</u>
<u>University</u>			
State Institution Bonds			
Series 1993B	4.5% to 4.65%	04/01/03	\$ 3,525,000
Series 1996B	5.0% to 7.00%	04/01/16	25,460,000
Auxiliaries Revenue Bonds			
Series 1996	5.3% to 6.8%	06/01/26	23,595,000
Series 1997	5.25% to 5.6%	06/01/17	3,940,000
Series 1999A	4.0% to 5.0%	06/01/19	4,670,000
Series 2000A	5.125% to 5.75%	06/01/30	20,900,000
Parking Facilities Revenue Bonds-Series 1995	4.75% to 5.00%	05/01/15	<u>6,640,000</u>
			<u>88,730,000</u>
<u>Component Unit</u>			
Revenue Bonds			
Series 1991	7.2% to 8.2%	12/01/03	785,000
Series 2000	Variable	09/01/25	<u>10,600,000</u>
			<u>11,385,000</u>
<b>Total</b>			<b><u>\$100,115,000</u></b>

The various bond indentures restrict the use of particular revenue sources. State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition paid to the University is restricted up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds. The University receives interest subsidies from the U.S. Department of Education designated for debt service on revenue bonds. Revenue received for dormitory and married student housing, parking facilities and any subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on revenue and parking facilities revenue bonds.

The University purchased a bond insurance policy for the parking facilities revenue bonds - Series 1995 in lieu of establishing a debt service reserve fund. The insurance policy guarantees payment of the debt service reserve on behalf of the University for up to \$966,690 to the final maturity of the bonds. The University also purchased a bond insurance policy for each series of auxiliaries revenue bonds which guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds.

The bond documents outline certain covenant terms to secure the bonds. For the state institution bonds, the University must maintain its tuition fees at amounts necessary to meet annual debt service requirements. For revenue bonds, the University must generate net revenues available for debt service of not less than 100 percent of debt service payments due in each bond year. In addition, the University must establish and maintain debt service funds with the South Carolina State Treasurer for payment of principal and interest for all bonds.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)**

#### ***Bonds Payable (Continued)***

Certain of the University's bonds may be redeemed at a premium or at par prior to the mandatory redemption dates and final maturities at the option of the University. The bond redemption prices (expressed as a percentage of the principal redeemed) are as follows:

<u>Bond</u>	<u>Range</u>
State Institution Bonds - Series 1996B	2.0% from 04/01/06 through 03/31/07 1.0% from 04/01/07 through 03/31/08 Par from 04/01/08 through maturity
Auxiliaries Revenue Bonds: Series 1996	1.0% from 06/01/06 through 05/31/07 Par from 06/01/07 through maturity
Series 1997	1.0% from 06/01/07 through 05/31/08 Par from 06/01/08 through maturity
Series 1999	1.0% from 06/01/09 through 05/31/10 Par from 06/01/10 through maturity
Series 2000	Par from 06/01/10 through maturity
Parking Facilities Revenue Bonds - Series 1995	2.0% from 05/01/05 through 04/30/06 1.0% from 05/01/06 through 04/30/07 Par from 05/01/07 through maturity

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the auxiliaries revenue and parking facilities revenue bond obligations as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 1,720,000	\$ 3,289,612	\$ 5,009,612
2003	1,455,000	3,198,234	4,653,234
2004	1,540,000	3,119,196	4,659,196
2005	1,635,000	3,035,379	4,670,379
2006	1,725,000	2,946,198	4,671,198
2007 through 2030	<u>51,670,000</u>	<u>35,038,209</u>	<u>86,708,209</u>
<b>Total Obligations</b>	<b><u>\$59,745,000</u></b>	<b><u>\$50,626,828</u></b>	<b><u>\$110,371,828</u></b>

**UNIVERSITY OF SOUTH CAROLINA**

## Notes to Financial Statements

June 30, 2001**NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)*****Bonds Payable (Continued)***

Amounts including interest required to complete payment of the state institution bonds as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 2,840,000	\$ 1,521,356	\$ 4,361,356
2003	2,985,000	1,365,681	4,350,681
2004	1,250,000	1,209,400	2,459,400
2005	1,320,000	1,121,900	2,441,900
2006	1,390,000	1,029,500	2,419,500
2007 through 2016	<u>19,200,000</u>	<u>5,732,250</u>	<u>24,932,250</u>
<b>Total Obligations</b>	<b><u>\$28,985,000</u></b>	<b><u>\$11,980,087</u></b>	<b><u>\$40,965,087</u></b>

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement are recorded directly in the retirement of indebtedness plant funds subgroup as student tuition and fees revenues. Mandatory transfers from auxiliary enterprises revenue for revenue bonds debt service are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

In prior years, the University defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result because the bonds are considered defeased, the liability for the defeased bonds has been removed from the University's investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 2001, \$1,610,000 (\$210,000 attributable to Coastal Carolina University) in state institution bonds and \$350,000 of parking facilities revenue bonds are considered defeased.

***Bond Anticipation Notes***

The University uses bond anticipation notes to temporarily finance capital additions and intends to refinance these obligations over a longer period of time in the future through permanent financing. Usually within a year, a long-term bond is issued to repay the bond anticipation notes. The funds to retire the outstanding notes will be obtained through certain stadium seat assessment fees and student fees, as well as additional temporary refinancing and permanent financing. The seat assessment fees are recorded as revenue directly in the retirement of indebtedness fund subgroup of the plant funds group.

Of the \$12,775,000 in bond anticipation notes outstanding at June 30, 2000, \$11,250,000 was refinanced. Athletic facilities revenue bond anticipation notes issued in February 2001 in the amount of \$11,250,000 and outstanding at June 30, 2001, are due in February 2002 and bear a net interest rate of 3.317 percent.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)**

***Summary of Current Year Expenditures***

The University reported principal payments and interest and other charges on indebtedness related to bonds and bond anticipation notes for the year ended June 30, 2001, as follows:

	<u>Principal Payments</u>	<u>Interest Expenditures</u>
Bonds Payable	\$4,420,000	\$5,006,493
Bond Anticipation Notes	<u>1,525,000</u>	<u>497,754</u>
	<u>\$5,945,000</u>	<u>\$5,504,247</u>

Of the above bonds payable interest and other charges on indebtedness amount for the current year, \$23,117 is attributable to bond discount amortization. The University capitalized \$84,894 of interest expenditures as part of construction in progress.

***Debt Service Limitation On State Institution Bonds***

S.C. Code of Laws Section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 2000, were \$7,807,135, which results in a legal annual debt service limit at June 30, 2001, of \$7,026,421. The annual debt service payments for the fiscal year ended June 30, 2001 were \$4,351,707.

***Bonded Debt Attributable to Component Unit***

The Trust owns and operates Medical Park II and Medical Park IV, medical office buildings located near the campus of a regional hospital in Richland County, South Carolina. The buildings are used for the operations of substantially all of the entities participating in the Practice Plan. Several unaffiliated entities rent space in Medical Park II.

The acquisition of Medical Park IV was originally financed through the issuance of "University of South Carolina School of Medicine Educational Trust Revenue Bonds, Series 1991" (the "Series 1991 Bonds"). Series 1991 Bonds have scheduled maturities through December 1, 2011.

Total Series 1991 Bonds Issued	\$1,125,000
Principal Payments Made Since Inception	<u>(340,000)</u>
Revenue Bonds Outstanding	785,000
Portion Due Currently	<u>(50,000)</u>
Long-term Portion	<u>\$ 735,000</u>

Principal paid and interest expense on the bonds payable were \$50,000 and \$57,540 for the year ended December 31, 2000. Interest rates range from 7.2 percent to 8.2 percent.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)**

#### ***Bonded Debt Attributable to Component Unit (Continued)***

Principal and interest payments for the four years subsequent to December 31, 2000, and thereafter, amount to the following. (The separately issued Trust and Practice Plan Financial Statements did not disclose payment amounts for the fifth year as required by governmental GAAP.)

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 50,000	\$ 54,340	\$ 104,340
2002	55,000	51,040	106,040
2003	60,000	47,640	107,640
2004	60,000	44,140	104,140
Thereafter	<u>560,000</u>	<u>165,385</u>	<u>725,385</u>
Total	<u>\$785,000</u>	<u>\$362,545</u>	<u>\$1,147,545</u>

Bonds maturing on or before December 1, 2001, are not subject to early redemption. Bonds maturing subsequent to that date are subject to early redemption at a specified premium at the option of the Trust with 45 days prior written notice.

These bonds are limited obligations of the Trust, with debt service to be paid solely from receipts derived from leasing the project.

As security for the bonds, the Trust has executed a Leasehold Mortgaging and Financing Agreement, as well as an Assignment of Leases, Rents and Profits for the benefit of bondholders. These agreements grant to bondholders a leasehold mortgage on the building as well as a security interest in the project revenues and provide for the establishment of an operating reserve. The Trust has established operating accounts which are maintained by the property management and leasing agent.

On September 1, 2000, the Trust issued \$10,600,000 "University of South Carolina School of Medicine Educational Trust Tax-Exempt Adjustable Mode Healthcare Facilities Revenue Bonds, Series 2000" (the "Series 2000 Bonds"). The proceeds are to be used to renovate the Medical Park II and Medical Park IV medical office buildings, refinance the matured Series 1992 Notes (See Note 5.), and to pay certain debt issuance costs.

Prior to the issuance of the Series 2000 Bonds, the Trust placed funds into an escrow account for the purpose of early retiring the unpaid principal balance and accrued interest of the Series 1991 Bonds at their earliest call date, December 1, 2001. Upon the transfer of debt service funds to the escrow account, the Series 1991 security interest in the Medical Park IV building was released. Funds held in the escrow account (see Note 16) are reported as "cash and cash equivalents" and may not be used for the operations of the Trust or to satisfy the debt covenants of the Series 2000 Bonds.

The Series 2000 Bonds are limited obligations of the Trust. The terms of the indebtedness provide that bondholders may redeem, or put, the Series 2000 Bonds to the remarketing agent on dates that approximate a monthly basis. The remarketing agent is obligated to remarket the redeemed Series 2000 Bonds on a "best efforts" basis. Redeemed Series 2000 Bond's are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the Series 2000 Bonds, from a renewing, 13-month letter of credit provided by Wachovia Bank, N.A. ("Wachovia"). In connection with the issuance of the Series 2000 Bonds, the

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 4 - BONDS PAYABLE AND BOND ANTICIPATION NOTES (CONTINUED)**

#### ***Bonded Debt Attributable to Component Unit (Continued)***

University has pledged that for as long as Bonds remain outstanding, the University will not terminate the Practice Plan and will cause it to be operated so that all interest and principal on the Series 2000 Bonds will be paid. As additional security to Wachovia, the Trust has granted Wachovia a security interest in substantially all real and personal property of the Trust, in the Trust's rights to medical office building rents, and in its land lease (Note 6) with the University. The terms of the Indenture of Trust (the "Indenture") relating to the issuance of the Series 2000 Bonds provide that they bear interest at a variable rate, not to exceed 12%. Interest is paid each September 1 and quarterly thereafter. The interest rate was initially computed weekly. The Indenture provides the Trust with options that include monthly or longer interest computational periods as well as a conversion privilege to fixed interest rate obligations. Administrative procedures associated with the selection of any option include approval by the bondholders. Management expects that in the normal course of business, interest will be computed on a weekly basis. At December 31, 2000, the interest rate on the Series 2000 Bonds was 4.95%. During the year ending December 31, 2000, the weighted average interest rate paid was 4.77%.

The stated due date of the Series 2000 Bonds is September 1, 2025. The Reimbursement and Security Agreement (the "Agreement") related to the Series 2000 Bonds requires that a portion be retired commencing September 1, 2001, and each year thereafter until September 1, 2025. The Trust prepays equal monthly amounts so that on September 1 of each year, the entire amount to retire that year's Series 2000 Bonds is on deposit with the Trustee. The Agreement requires that the Trust abide by affirmative and negative covenants, the most restrictive of which is the maintenance of \$4,000,000 of unencumbered liquidity. Asset balances for these restricted purposes were not disclosed in the separately issued Trust and Practice Plan Financial Statements.

Information on scheduled bond principal redemptions for the years subsequent to December 31, 2000, follows:

Year ended December 31,	
2001	\$ 420,000
2002	420,000
2003	420,000
2004	420,000
2005	420,000
2006 and thereafter	<u>8,500,000</u>
	<u>\$10,600,000</u>

Principal payments and interest expense on the bonds were \$50,000 and \$159,298, for the year ended December 31, 2000.

**UNIVERSITY OF SOUTH CAROLINA**

## Notes to Financial Statements

June 30, 2001**NOTE 5 - INSTALLMENT NOTES PAYABLE AND COMPONENT UNIT NOTES PAYABLE*****Installment Notes Payable***

In prior years, the University made borrowings under the State Treasurer's Office's Master Lease/Purchase Program. At June 30, 2001, the University had two bank notes payable outstanding, as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
Note dated March 1999	3.793%	March 2004	\$122,748
Note dated November 1999	5.359%	November 2006	\$377,366

Proceeds of \$214,119 from the March 1999 note were used to purchase telephone equipment. Proceeds from the November 1999 note were used to purchase a scoreboard for \$429,550. The notes are collateralized by these items. As required by the note agreements, the University must, at its own cost and expense, preserve and keep the equipment in good repair, working order and condition. Future payments on these notes payable are to be funded from unrestricted current funds resources.

The first note is payable in quarterly installments plus interest. The second note is payable in annual installments plus interest. Amounts including interest required to complete payment of the notes as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 98,149	\$24,270	\$122,419
2003	102,756	19,662	122,418
2004	95,781	14,833	110,614
2005	64,302	10,902	75,204
2006	67,748	7,456	75,204
2007 and after	<u>71,378</u>	<u>3,825</u>	<u>75,203</u>
<b>Total Obligations</b>	<b><u>\$500,114</u></b>	<b><u>\$80,948</u></b>	<b><u>\$581,062</u></b>

Payments for fiscal year 2001 of \$122,418, of which \$28,665 represented interest, are reported in the retirement of indebtedness plant funds subgroup.

In addition, in 1995, the University entered into an installment agreement to purchase a rare book collection (Matthew J. Bruccoli Collection of F. Scott Fitzgerald) for \$800,000 without interest. The installment note is payable in annual installments of \$60,000 through fiscal year 2005. Payments totaling \$60,000 in 2001 were made by the University. Interest expense has been imputed at 5.16 percent. Payments for principal and interest for fiscal year 2001 were \$46,655 and \$13,345. These payments were recorded in the retirement of indebtedness plant funds subgroup. The value of the \$240,000 liability (net of imputed interest) at June 30, 2001, was \$211,968.

In the current fiscal year, the University entered into two other installment purchase agreements to acquire rare book collections. The Joel Myerson collection of Thoreau and Hawthorne manuscripts was purchased for \$330,000 without interest. This installment note is payable in a \$55,000 installment in fiscal year 2003 and thereafter in annual installments of \$36,667 through fiscal year 2010. Interest has been imputed at 4.38%. Payments (principal only) totaling \$18,331 were made by the University in fiscal year 2001 and were recorded in the retirement of indebtedness plant funds subgroup. The value of the \$311,669 liability (net of imputed interest) at June 30, 2001 was \$260,605.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 5 - INSTALLMENT NOTES PAYABLE AND COMPONENT UNIT NOTES PAYABLE (CONTINUED)**

***Installment Notes Payable (Continued)***

Also, the Maurice J. Speiser collection of Ernest Hemingway papers with an appraised value of \$1,800,000 was purchased for \$900,000 without interest (the \$900,000 difference between the purchase price and appraised value was recognized as a gift from the donor). In the current year, one installment of \$800,000 (principal only) was made on behalf of the University by the USC Educational Foundation, a related party. The remaining balance is payable in one installment of \$100,000 in fiscal year 2002. Interest has been imputed at 4.38%. The value of the \$100,000 liability (net of imputed interest) at June 30, 2001 was \$95,620.

Installment notes for these rare collections are collateralized by the collections.

Amounts including interest required to complete payment of the notes as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$144,682	\$15,318	\$160,000
2003	95,179	19,821	115,000
2004	81,418	15,249	96,667
2005	85,407	11,260	96,667
2006	29,593	7,074	36,667
2007 and after	<u>131,914</u>	<u>14,754</u>	<u>146,668</u>
<b>Total Obligations</b>	<u>\$568,193</u>	<u>\$83,476</u>	<u>\$651,669</u>

***Notes Payable Attributable to Component Unit***

On March 5, 1992, the Trust acquired a building known as Medical Park II. The building is currently utilized for the operations of six of the Departments participating in the Practice Plan, as well as outside entities.

In conjunction with the acquisition, the Trust authorized and issued a series of notes known as the "University of South Carolina School of Medicine Educational Trust Revenue Notes (Medical Park II Office Building Project) Series 1992." The notes matured on December 1, 1999. With the concurrence of the holder of the notes, management temporarily extended the maturity date into the year 2000.

On September 1, 2000, the Trust issued \$10,600,000 Series 2000 Bonds the proceeds of which were used in part to refinance the matured Series 1992 Notes. (See Note 4.) Principal payments and interest expense on the Series 1992 notes were \$4,875,445 and \$280,865, for the year ended December 31, 2000.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 6 - LEASE OBLIGATIONS**

***Operating Leases***

The University is obligated under various operating leases for the use of real property. Future commitments for the operating leases having remaining noncancelable terms in excess of one year as of June 30, 2001, were as follows:

<u>Year Ending June 30</u>	<u>Operating Leases</u>
2002	\$ 425,730
2003	279,912
2004	68,347
2005	42,500
2006	42,500
2007 and after	<u>170,000</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$1,028,989</u></b>

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2002 through 2031. These noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options for periods from 2002 to 2031 at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

Total operating lease expenditures in 2001 were \$1,007,825 (\$60,237 of this amount was the last payment on an equipment lease). The University reports these costs in the applicable current funds functional expenditure categories.

***Obligations Attributable to Component Units***

The Trust acquired buildings known as Medical Park IV and Medical Park II in December 1991 and March 1992. Rent revenue is received from non-Practice Plan entities who occupy space in the two buildings. Additionally, the various operating units of the Trust and Practice Plan which utilize the building space transfer funds in lieu of rent. Rents are utilized by the Trust for debt service and operating expenses.

The Trust operates the two buildings for the benefit of the University's School of Medicine in the training of Clinical Practice Department students. The acquisitions were initially financed by issuance of revenue bonds and notes totaling \$6,825,000. The bonds and notes were refinanced during the current year using the proceeds of the Series 2000 bonds. (See Notes 4 and 5.) The University has title to the land and has a ground lease with the Trust which was modified in connection with the issuance of the Series 2000 Bonds by the Trust. The modified ground lease provides for annual rents ranging from \$67,210 to \$116,422 and extends the expirations of the lease periods from 2025 and 2011 to 2035 for both.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 6 - LEASE OBLIGATIONS (CONTINUED)**

#### ***Obligations Attributable to Component Units (Continued)***

The land upon which the Medical Park II and Medical Park IV buildings are located is the property of the University of South Carolina School of Medicine and is being leased to the Trust as follows:

	<u>Medical Park II</u>	<u>Medical Park IV</u>	<u>Totals</u>
Term of Lease	43 years *	44 years *	
Termination Date	December 1, 2035	December 1, 2035	
Land Lease Payment			
2001	\$ 36,960	\$ 30,250	\$ 67,210
2002	36,960	30,250	67,210
2003	40,656	30,250	70,906
2004	40,656	30,250	70,906
2005	40,656	30,250	70,906
Thereafter	<u>1,486,100</u>	<u>1,230,100</u>	<u>2,716,200</u>
<b>Total</b>	<u>\$1,681,988</u>	<u>\$1,381,350</u>	<u>\$3,063,338</u>

\* The term includes the initial periods plus the modification in 2000.

Ground lease expense of \$64,460 was paid by the Trust to the University. The University reports the rental income in unrestricted current funds.

The bond resolutions require the Trust to convey ownership of each building to the University at such time as all acquisition indebtedness has been retired.

The Trust Operations Department as well as the Departments of Orthopedics, Obstetrics and Gynecology, Surgery, Internal Medicine, and Diagnostic Center have acquired certain office and medical equipment under capital lease arrangements. The following is a summary of capital lease obligations at December 31, 2000:

	<u>Clinics</u>	<u>Trust</u>	<u>Total</u>
Obligations under capital leases,			
Balance at December 31, 1999	\$588,656	\$28,530	\$617,186
Obligations acquired in current year	-	-	-
Repayments in current year	<u>(176,534)</u>	<u>(26,914)</u>	<u>(203,448)</u>
<b>Obligations under Capital Leases,</b>			
<b>Balance at December 31, 2000</b>	412,122	1,616	413,738
Obligations under capital leases,			
Current portion	<u>139,664</u>	<u>1,616</u>	<u>141,280</u>
<b>Obligations under Capital Leases,</b>			
<b>Due after one year</b>	<u>\$272,458</u>	<u>\$ -</u>	<u>\$272,458</u>

Interest expense for capital leases was \$53,567 for the year ended December 31, 2000.

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 6 - LEASE OBLIGATIONS (CONTINUED)**

***Obligations Attributable to Component Units (Continued)***

The following is a schedule by years of future minimum capital lease payments and the present value of net minimum lease payments as of December 31, 2000:

<u>Year Ending December 31:</u>	<u>Minimum Lease Payments</u>
2001	\$179,425
2002	169,292
2003	118,473
2004	<u>21,811</u>
<b>Total Minimum Lease Payments</b>	489,001
Less Amounts Representing interest	<u>(75,263)</u>
<b>Present Value of Net Minimum Lease Payments</b>	<u><u>\$413,738</u></u>

**NOTE 7 - NONMANDATORY TRANSFERS**

Tuition, fees, and revenues pledged for debt service and required to be deposited in the retirement of indebtedness funds subgroup remain in that subgroup until they are expended for debt service requirements or transferred by the State Treasurer. Such funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law.

For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers available funds into a general capital improvements funding account which the University reports in the unexpended plant funds subgroup. In fiscal year 2001, the University transferred \$4,326,184 for that purpose which is reported as a nonmandatory transfer. The unexpended balance in the general capital projects funding account of the unexpended plant funds subgroup is reported in unrestricted fund balance. During the current year, the University transferred \$9,481,968 within that subgroup from the general capital improvements funding account to finance specific capital projects. Unexpended balances in specific project accounts are reported in restricted fund balances.

For revenue bonds issued by the University, transfer of available funds in excess of required minimum balances is requested by the University to the State Treasurer. The University did not transfer any such funds in fiscal year 2001.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 7 - NONMANDATORY TRANSFERS (CONTINUED)**

During fiscal year 2001, the University made the following nonmandatory transfers:

<u>From</u>	<u>FUND</u> <u>To</u>	<u>Amount</u>	<u>Purpose</u>
Unrestricted Current	Quasi-Endowment	\$ 44,858	Transfer of funds to quasi-endowment as authorized by Board of Trustees.
Unrestricted Current	Unexpended Plant	8,259,160	Financing of construction projects.
Unrestricted Current	Retirement of Indebtedness Plant	665,209	Funding of debt service.
Restricted Current	Unrestricted Current	266,888	Residual funds from fixed price contracts.
Restricted Current	Unexpended Plant	2,480,540	Financing of construction projects.
Loan	Unrestricted Current	1,183	Return of institutional matching funds.
Quasi-Endowment	Unrestricted Current	2,921,449	Return of funds from quasi-endowment as authorized by Board of Trustees.
Retirement of Indebtedness Plant	Unexpended Plant	4,326,184	Financing for capital improvements.

Within unrestricted current funds, the University transferred \$3,685,410 from auxiliary enterprises to support educational and general activities. These transfers, which are shown at gross on Exhibit C have been netted within unrestricted current funds on Exhibit B.

See Note 22 for information about transfers between component units.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 8 - PENSION PLANS**

***University Employees***

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2001, 2000, and 1999, were \$16,039,000, \$15,315,000, and \$14,527,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge)

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 8 - PENSION PLANS (CONTINUED)**

***University Employees (Continued)***

for each year. Also, the University paid employer group-life insurance contributions of \$320,000 in the current fiscal year at the rate of .15 percent of compensation. In addition, the University paid the employer's 7.55 percent share (\$21,300) of pension costs for employees on educational leave with employees paying \$16,900.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82 percent which, as for the SCRS, included the 2.52 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2001, 2000, and 1999, were \$271,000, \$251,000, and \$234,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$5,300 and accidental death insurance contributions of \$5,300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 8 - PENSION PLANS (CONTINUED)**

***University Employees (Continued)***

Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plan(s) is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plan(s).

At retirement, employees participating in the SCRS or PORS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.52 percent from the employer in fiscal year 2001.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$4,460,000 (excluding the surcharge) from the University as employer and \$3,544,000 from its employees as plan members. In accordance with revised State requirements effective for fiscal year 2001, the University did not pay for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

***Component Units***

The Trust provides a defined contribution plan covering all faculty participants in the Practice Plan. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits. After completion of three

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 8 - PENSION PLANS (CONTINUED)**

***Component Units (Continued)***

years of service, benefits are fully vested. Contributions for the years ended December 31, 2000 and 1999 amounted to \$966,472 and \$923,329, respectively are included as a component of personal services and related expenses.

**NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of \$17,003,000 for the year ended June 30, 2001. As discussed in Note 8, the University paid \$6,908,000 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 10 - DEFERRED COMPENSATION PLANS**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to \$300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full-time employees making less than \$20,000 as of July 1, 2000, are not required to contribute in order to receive the match.

The University contributed \$25.00 per pay period beginning January 15, 2001.

**NOTE 11 - RETIREMENT INCENTIVE**

Section 59-103-150 of the South Carolina Code of Laws allows the University's Board of Trustees to implement an early retirement plan for its faculty. Two objectives of this law were to help institutions of higher education reallocate resources and effect cost-saving measures. The University did not implement such a plan.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The University recorded expenditures of approximately \$1,961,100 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in unrestricted current funds in the applicable functional expenditure categories in which the payroll costs for the respective employees are recorded. Of that amount, \$520,200 is also reported as an accrued payroll liability at June 30, 2001, for related disbursements to be made in fiscal year 2002. The compensated absences liability related to eligible employees who have not elected to participate as of June 30, 2001 is \$1,632,000.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 12 - INVENTORIES**

Inventories are valued at cost except for bookstores and University Press inventories which are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 2001:

<u>Category</u>	<u>Method</u>	
Bookstores (Campuses Other than Columbia)	First-in, first-out	\$1,117,460
Maintenance	Last-in, first-out	229,422
Central Supply	First-in, first-out	59,905
University Press	First-in, first-out	616,094
Others	Various	<u>163,027</u>
		<u>\$2,185,908</u>

### **NOTE 13 - INTERFUND LIABILITIES AND BORROWINGS**

For the most part for its multi-campus system, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and by campus. At June 30, 2001, restricted current funds owed unrestricted current funds \$11,537,714.

During fiscal year 1997, the University advanced funds from the endowment funds to the unexpended plant funds subgroup to purchase/construct a capital asset for \$1,000,000. Upon completion of the project, the asset was capitalized in the investment in plant funds subgroup and the related advance transferred to that subgroup. The advance is payable in annual installments through fiscal year 2006 at an annual interest rate of 7.5%. The repayment is recorded as an expenditure in unrestricted current funds - auxiliary enterprises and as a retirement of indebtedness addition in the investment in plant funds subgroup. A principal payment of \$95,000 and an interest payment of \$51,750 were made in fiscal year 2001. The outstanding balance of the advance at June 30, 2001, is \$595,000.

#### ***Component Units***

As of December 31, 2000, the amount due to the Trust support fund from the Practice Plan operations fund was \$1,745,268: Within the Trust, \$340,200 was due from the support fund to the operations fund.

In the separately issued component unit financial statements and the condensed component unit statements presented in Note 22, such amounts are separately reported on the balance sheet in asset and liability accounts which identify the individual source and recipient funds of each component unit. On the University's balance sheet, these balances are eliminated.

Within the Trust's funds, the \$249,020 due to the operations and support funds for the Dean's academic enhancement fund from the building and equipment fund consists of the funds advanced by the Dean's fund toward the acquisition of certain property. Pursuant to various agreements entered into in connection with the issuance of certain revenue bonds and notes, project revenues will be used to reimburse the Dean's fund after operating expenses are paid and debt service and contingencies are provided for.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 14 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLES**

The University has the following significant accounts receivable at fiscal year end 2001 for which the detail is not displayed on the balance sheet.

#### Unrestricted Current Funds

Educational and General	
Student and Sponsor Receivables	\$3,310,920
University Press	419,228
Computer Services	77,792
Employee Travel Advances	70,910
Other	343,877
Auxiliary Enterprises	
Housing	562,854
Bookstores	414,268
Parking	584,385
Athletics	713,892
Faculty House	157,012
Other	<u>154,916</u>
	6,810,054
Less: Allowance for uncollectibles	<u>461,162</u>
	<u><u>\$6,348,892</u></u>

#### Agency Funds

EPSCOR	\$ 90,179
Small Business Development Center	619,374
US Department of Justice Legal Education	270,570
USC Educational Foundation	81,689
National Advocacy Center	957,023
SCAMP	197,320
Other	<u>53,998</u>
	<u><u>\$2,270,153</u></u>

With minor exceptions, loan losses for student loan receivables and various accounts receivable are established based upon losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 2001, net student loans receivable of \$17,390,640 are reported in loan funds. Gross student loans receivable of \$18,312,503 are reported net of \$921,863 allowance for uncollectibles.

#### ***Component Units***

The clinical entities, through their affiliation with a hospital, which serves as a regional medical and trauma center, provide medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

Management adjusts patient charges to their estimated net realizable value through a valuation allowance. Adjustments related to indigent care and third-party payers are recorded as reductions of patient service revenue. Adjustments related to bad debts of privately paying patients are recorded as a provision for uncollectible accounts expense.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 14 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLES (CONTINUED)**

***Component Units (Continued)***

For the year ended December 31, 2000, the "patients accounts receivable, net" balance consists of the following:

Adjusted Patient Charges	\$3,679,758
Less, Estimated Uncollectible Charges and Waivers of Balances Due	<u>(847,798)</u>
<b><i>Patient Accounts Receivable, Net</i></b>	<b><u>\$2,831,960</u></b>

The allowance for uncollectible charges applied to reduce adjusted patient charges to net realizable value at December 31, 2000, is determined by each component unit based on its collection experience for similar receivables.

**NOTE 15 - CONSTRUCTION COSTS AND COMMITMENTS**

The University's accumulated costs at June 30, 2001, for projects that are under construction or in the planning stage that are to be capitalized upon completion total approximately \$41,602,000. Costs to complete these projects are estimated to be approximately \$133,954,000 and the projects are expected to be completed over the next several years.

The University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs and/or renovations to existing facilities. Costs incurred to date and the estimated costs to complete on these projects amount to approximately \$9,148,000 and approximately \$9,610,000 at June 30, 2001.

At June 30, 2001, the University held commitments with various contractors relating to all projects of approximately \$95,637,000. The University anticipates the funding of these projects out of current and future bond issues, capital improvement bond proceeds, gifts, governmental and other restricted-purpose funds for use on specific projects, and unrestricted monies available for capital projects.

**NOTE 16 - DEPOSITS AND INVESTMENTS**

Most deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain of the University's deposits and investments are deposited with or managed by financial institutions and brokers as approved by the State Treasurer. Cash and investments of the University's component units are not under the State Treasurer's control.

**UNIVERSITY OF SOUTH CAROLINA**

## Notes to Financial Statements

June 30, 2001**NOTE 16 - DEPOSITS AND INVESTMENTS (CONTINUED)**

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$115,448,923	Cash on Hand	\$ 138,854
Investments	10,664,384	Deposits Held by State	
		Treasurer	105,652,132
		Other Deposits	76,875
		Component Unit Deposits:	
		Discrete Presentation	9,531,515
		Blended Presentation	49,547
		Investments Held by State	
		Treasurer	1,770,517
		Other Investments	2,477,796
		Component Unit	
		Investments- Discrete	
		Presentation	<u>6,416,071</u>
	<u>\$126,113,307</u>		<u>\$126,113,307</u>

***Deposits Held by State Treasurer***

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

***Other Deposits***

The University's other deposits at year-end were entirely covered by federal depository insurance for deposits with banks. Of the total of these deposits the University's loan funds include \$25,000 restricted cash for a loan participation deposit.

***Investments Held by State Treasurer and Other Investments***

The University's legally restricted investments in the endowment and similar funds include common stock held by the State Treasurer for the University. The University has other endowment investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end. (See Note 1 - Summary of Significant Accounting Policies - Gifts and Other Nonexchange Transactions - for specific recognition criteria.)

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 16 - DEPOSITS AND INVESTMENTS (CONTINUED)**

#### ***Investments Held by State Treasurer and Other Investments (Continued)***

Purchases and sales are accounted for on the transaction date. Realized and unrealized gains and losses on investments have been recorded. Gains and losses on securities transactions are reported at net separately in the endowment and similar funds. Ordinary earnings are recorded on an accrual basis.

The University's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the University's name. Investments which do not meet the definition of investment securities are listed below but are not classified by risk category. A summary of investments at June 30, 2001, by category of credit risk follows:

	<u>Category</u>		<u>Fair</u>
	<u>1</u>	<u>3</u>	<u>Value</u>
Common Stock Held by State Treasurer	\$1,769,217	\$ -	\$1,769,217
Common Stocks Held by Others	-	458,892	458,892
U. S. Government Securities	-	179,782	179,782
Corporate Bonds	-	48,562	48,562
Pooled Investments*	<u>-</u>	<u>1,788,846</u>	<u>1,788,846</u>
Total Categorized Investments	<u>\$1,769,217</u>	<u>\$2,476,082</u>	4,245,299
Miscellaneous			
Mortgage			1,714
Other - Held by State Treasurer			<u>1,300</u>
<b>Total Investments</b>			<b><u>\$4,248,313</u></b>

\*Consist of marketable debt and equity securities and U.S. and State government debt instruments.

#### ***Component Units' Deposits***

The Trust's and the Practice Plan's cash and cash equivalents balance includes cash on deposit with financial institutions of \$9,395,706 and deposits in money market funds of \$135,809. Of these amounts, approximately \$4,038,000 exceeded the limits of federal depository insurance (FDIC). Of the amount exceeding federal depository insurance limits, \$2,142,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 16 - DEPOSITS AND INVESTMENTS (CONTINUED)**

***Component Units' Deposits (Continued)***

Of the total cash and cash equivalents for the Trust and Practice Plan, \$808,519 is restricted for the purpose of early retiring the unpaid principal balance and accrued interest of the Series 1991 Bonds (See Note 4). The funds are held in escrow by the trustee of the bonds.

Management does not believe that significant credit risk is associated with its banking relationships. The difference in reported book balance and the bank balance of deposits is comprised of in-transit reconciliation items at fiscal year end.

The Faculty House "cash and cash equivalents" account includes cash on deposit with banks of \$49,547. These deposits are fully insured and did not exceed the limits of FDIC at August 31, 2000.

Deposits with financial institutions are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank.)
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

Total bank balance and depository credit risk information pertaining to the categorization by bank balance was not reported in the separately issued component unit financial statements for the Trust and the Practice Plan. In addition, those financial statements also did not disclose whether the money market funds were on deposit with a financial institution or another entity. As explained below, those statements classified certificates of deposits marketable securities (investments) but did not provide disclosures as to whether they were non-negotiable (deposits) or negotiable (subject to investment disclosure requirements). Therefore, this note does not present all information as required by governmental GAAP.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 16 - DEPOSITS AND INVESTMENTS (CONTINUED)**

#### ***Component Units' Investments***

Investments of the component unit (the Trust) consist of long-term certificates of deposit, equity securities, and mutual funds. Investments have been classified as available-for-sale and are carried at fair value. Investments classified as available-for-sale are not actively traded. The Trust has the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Marketable Equity Securities:		
Common Stock	\$3,982,297	\$4,154,844
Mutual Funds	61,227	61,227
Certificates of Deposit * maturing after three months	<u>2,200,000</u>	<u>2,200,000</u>
<b>Total</b>	<u>\$6,243,524</u>	<u>\$6,416,071</u>

Common stocks, mutual funds, and U.S. Treasury obligations are held by an agent of the Trust in the Trust's name and, therefore, are in investment credit risk category 1.

\*Classification as to negotiability for certificates of deposit is not reported in the separately issued component unit financial statements. Non-negotiable certificates of deposit should be classified as deposits and negotiable certificates of deposit should be classified as investments. This note does not present all information as required by governmental GAAP.

### **NOTE 17 - PLEDGES OF GIFTS**

The University recognizes revenue from Gamecock Club pledges when all eligibility requirements are met, provided the pledge is verifiable and the resources are measurable and probable of collection. Pledges are accounted for at their estimated net realizable value. The estimated net realizable value comprehends the present value of long-term pledges and reductions for any allowance for estimated uncollectible pledges. Approximately \$9,224,000 of such donations were collected in cash in fiscal year 2001. Outstanding pledges at June 30, 2001, of approximately \$1,257,000 net of a \$100,000 allowance based on past collection experience are recorded as pledges receivable in the unrestricted current funds. Pledges are associated with the Gamecock Club membership drive at the University and are due by the end of the calendar year.

### **NOTE 18 - RELATED PARTIES**

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the University of South Carolina Development Foundation; the Lancaster County Educational Foundation, Inc.; and the South Carolina Research Institute. The financial statements of these entities are audited, except for those indicated as unaudited, by independent auditors retained by them. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

**UNIVERSITY OF SOUTH CAROLINA**  
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June 30, 2001

**NOTE 18 - RELATED PARTIES (CONTINUED)**

In conjunction with its implementation of GASB Statement No.14, each fiscal year thereafter, management reviews its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

The University of South Carolina Educational Foundation is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the University; and interest earnings on notes receivable from the Foundation. (See Note 24.)

The University of South Carolina Business Partnership Foundation is a nonprofit corporation which, among other purposes, was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region.

During the year, the University received funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation.

The Lancaster County Educational Foundation, Inc., is an eleemosynary corporation operating for the benefit and support of the University of South Carolina at Lancaster. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University.

The Greater University of South Carolina Alumni Association was formed to serve the students after they graduate. The Alumni Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the University, helping graduates keep in touch with one another, and providing programs of continuing education. During the year, the University received funds for scholarships from the Association and provided office and meeting space at no cost to the Association.

The Carolina Piedmont Foundation, Inc., was incorporated under the laws of South Carolina to establish and promote a permanent foundation to accept gifts for charitable, benevolent, cultural, and education purposes for the exclusive use and benefit of the University of South Carolina at Spartanburg. During the year, the University received funds from the Foundation for scholarships and reimbursement for personnel services provided by the University.

# UNIVERSITY OF SOUTH CAROLINA

## Notes to Financial Statements

June 30, 2001

### **NOTE 18 - RELATED PARTIES (CONTINUED)**

The University of South Carolina Development Foundation is a South Carolina eleemosynary corporation which operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. During the year, the University received funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. Also during the year, the University paid to the Foundation funds for the lease of aircraft and real property and for research programs.

The South Carolina Research Institute (SCRI) is a not-for profit research foundation which exists exclusively to facilitate the University of South Carolina's teaching, research and public service missions. It will support research programs of clear relevance to the state and nation. The research areas will focus on the environment, new technologies, economic development, health sciences and social issues. SCRI receives research funding from private sources and also competes for federal funds. During fiscal year 2001, the University received funds from SCRI for research.

Various transactions occur between the University and these related parties. A summary of these transactions for the year ended June 30, 2001, follows:

#### Funds Received from Related Parties

Carolina Piedmont Foundation	\$ 204,288
University of South Carolina Development Foundation	92,814
University of South Carolina Business Partnership Foundation	384,575
University of South Carolina Educational Foundation	7,939,024
Greater University of South Carolina Alumni Association	1,444,080
Lancaster County Educational Foundation	1,388,771
South Carolina Research Institute (SCRI)	<u>11,899,568</u>
	<u>\$23,353,120</u>

The majority of SCRI revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from the other related parties are recorded as private gifts revenue in restricted current funds. Restricted current funds federal grants and contracts receivables include \$4,151,882 due from SCRI at June 30, 2001.

#### Funds Paid to Related Parties

University of South Carolina Development Foundation	\$2,393,909
University of South Carolina Educational Foundation	98,350
Carolina Piedmont Foundation	64,049
Lancaster County Educational Foundation	<u>4,465</u>
	<u>\$2,560,773</u>

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 18 - RELATED PARTIES (CONTINUED)**

The University paid to the University of South Carolina Development Foundation \$6,971,007 in the prior fiscal year and \$2,192,548 in the current fiscal year for the purchase of land. This expenditure is reported in the unexpended plant funds subgroup. The University has a remaining commitment of \$686,000 for purchasing additional land.

The latest available audited financial statements of above-described related parties are summarized on page 56 except for those of the Lancaster County Educational Foundation, Inc., whose unaudited statements are summarized.

Another related party of the University is the South Carolina Universities Research and Education Foundation (SCUREF) which was incorporated in November 1988 under the laws of the State of South Carolina. Its purpose is to operate as a support organization primarily to provide such assistance as may be requested by Clemson University, the Medical University of South Carolina, South Carolina State University, and/or the University of South Carolina (collectively referred to as the "member universities") in their separate and joint efforts to perform research. During fiscal year 2001, the University received \$1,913,324 from SCUREF for research. The majority of SCUREF revenues are recorded by the University as federal grants and contracts revenue in restricted current funds. The University recorded \$791,029 due from SCUREF at June 30, 2001, as restricted current funds, federal grants and contracts receivable.

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**NOTE 18 - RELATED PARTIES (CONTINUED)**

	June 30, 2000 UNIVERSITY OF SOUTH CAROLINA DEVELOPMENT FOUNDATION	December 31, 2000 LANCASTER COUNTY EDUCATION FOUNDATION, INC. UNAUDITED	June 30, 2000 CAROLINA PIEDMONT FOUNDATION, INC.	June 30, 2000 UNIVERSITY OF SOUTH CAROLINA BUSINESS PARTNERSHIP FOUNDATION	June 30, 2000 UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION	June 30, 2000 GREATER UNIVERSITY OF SOUTH CAROLINA ALUMNI ASSOCIATION	June 30, 2000 SOUTH CAROLINA RESEARCH INSTITUTE
Total Assets	<u>\$ 41,815,431</u>	<u>\$ 3,640,904</u>	<u>\$ 7,686,377</u>	<u>\$ 19,937,374</u>	<u>\$ 211,366,292</u>	<u>\$ 5,203,347</u>	<u>\$ 6,155,462</u>
Net Assets and Fund Balances							
Net Assets							
Unrestricted, Designated	\$ 17,200,111	\$ -	\$ -	\$ 2,473,258	\$ 2,633,725	\$ -	\$ 164,462
Deficit in NetGen Learning Systems, Inc.	(663,050)	-	-	-	-	-	-
Unrestricted	12,596,226	377,826	1,449,825	503,315	27,308,281	2,299,992	1,495,457
Temporarily Restricted	3,156,312	-	1,910,210	8,929,333	64,562,677	1,227,018	-
Permanently Restricted	3,246,884	3,252,265	2,157,058	7,545,314	87,788,564	-	-
Total Net Assets	<u>\$ 35,536,483</u>	<u>\$ 3,630,091</u>	<u>\$ 5,517,093</u>	<u>\$ 19,451,220</u>	<u>\$ 182,293,247</u>	<u>\$ 3,527,010</u>	<u>\$ 1,659,919</u>
Unrestricted Net Assets							
Total Revenue and Support	\$ 3,739,408	\$ 40,875	\$ 1,838,160	\$ 4,590,912	\$ 2,234,141	\$ 1,810,666	\$ 10,529,220
Total Expenses	3,017,700	35,022	1,538,342	4,541,267	15,288,666	2,237,265	9,665,642
Increase (Decrease) in							
Unrestricted Net Assets	<u>721,708</u>	<u>5,853</u>	<u>299,818</u>	<u>49,645</u>	<u>(13,054,525)</u>	<u>(426,599)</u>	<u>863,578</u>
Temporarily Restricted Net Assets							
Total Revenue and Support	2,214,224	-	110,319	2,001,423	7,873,153	(363,150)	-
Total Expenses and Transfers	242,353	-	-	-	-	-	-
Increase (Decrease) in							
Temporarily Restricted Net Assets	<u>1,971,871</u>	<u>-</u>	<u>110,319</u>	<u>2,001,423</u>	<u>7,873,153</u>	<u>(363,150)</u>	<u>-</u>
Permanently Restricted Net Assets							
Total Revenue and Support	870	1,666,830	294,973	1,187,484	10,061,249	-	-
Total Expenses and Transfers	-	1,470,465	-	-	-	-	-
Increase in Permanently							
Restricted Net Assets	<u>870</u>	<u>196,365</u>	<u>294,973</u>	<u>1,187,484</u>	<u>10,061,249</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>\$ 2,694,449</u>	<u>\$ 202,218</u>	<u>\$ 705,110</u>	<u>\$ 3,238,552</u>	<u>\$ 4,879,877</u>	<u>\$ (789,749)</u>	<u>\$ 863,578</u>
Net Cash Provided by (Used) in							
Operating Activities	\$ 3,104,572	\$ -	\$ 89,797	\$ (1,276,187)	\$ (1,778,480)	\$ 88,370	\$ 346,029
Net Cash Used in							
Investing Activities	(4,064,182)	-	(100,014)	(2,699,214)	(14,534,574)	(754,883)	(258,817)
Net Cash Provided by							
Financing Activities	1,734,453	-	80,967	4,189,285	16,293,732	-	-
Net Increase (Decrease) in Cash and							
Cash Equivalents	<u>774,843</u>	<u>-</u>	<u>70,750</u>	<u>213,884</u>	<u>(19,322)</u>	<u>(666,513)</u>	<u>87,212</u>
Cash and Cash Equivalents, July 1	<u>245,853</u>	<u>-</u>	<u>73,280</u>	<u>1,876,805</u>	<u>1,088,764</u>	<u>951,622</u>	<u>345,603</u>
Cash and Cash Equivalents, June 30	<u>\$ 1,020,696</u>	<u>\$ -</u>	<u>\$ 144,030</u>	<u>\$ 2,090,689</u>	<u>\$ 1,069,442</u>	<u>\$ 285,109</u>	<u>\$ 432,815</u>

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**NOTE 19 - TRANSACTIONS WITH STATE ENTITIES**

The University has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, investment, and bond trustee services from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History.

Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, grants services, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, surplus property disposal fees, insurance coverage, office supplies, printing, and telephone and interagency mail services. Significant payments were also made to other agencies for unemployment and workers' compensation coverage for employees. Payments were also made to South Carolina Educational Television for use of parking facilities during stadium events. The amounts of 2001 expenditures applicable to these transactions are not readily available.

The University provided no services free of charge to other State agencies during the fiscal year; however, the University provided data processing services to various State agencies for fees which totaled \$341,393. This amount is reported as revenue from sales and services of educational and other activities. As subrecipient, the University received federal grant funds from various State agencies.

**NOTE 20 - CONTINGENCIES AND LITIGATION**

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including breach of contract, equal pay, discrimination, personal injury, invasion of privacy, medical malpractice, and negligence. In some of these cases, the remedies sought or damages claimed are substantial. In the opinion of counsel, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the University. Because the risk of material loss in excess of insurance coverage is unlikely, a loss liability has not been recorded.

The South Carolina Department of Revenue is a defendant in a class action lawsuit challenging the constitutionality and administration of the State's Debt Setoff Act. An order was issued in February, 2000 finding that numerous State agencies and political subdivisions had failed to give proper notice prior to setting off debts against the debtor's income tax refunds. However, an appeal and other proceedings are pending. The University, while not named as a defendant in the lawsuit, collected debts pursuant to the Debt Setoff Act. If the order is upheld, the loss could be \$366,619 to the University. In such a case, the University would seek collection from the original debtors.

# UNIVERSITY OF SOUTH CAROLINA

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### **NOTE 20 - CONTINGENCIES AND LITIGATION (CONTINUED)**

The various federal programs administered by the University for fiscal year 2001 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

### **NOTE 21 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS**

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 2000, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* which became effective for periods beginning after June 15, 2000. This Statement establishes accounting and financial reporting guidance about the timing for recognition of nonexchange transactions involving cash and other financial and capital resources. Implementation of the new standard changed the University's timing of recognition of certain revenues, primarily gifts and other voluntary nonexchange transactions, and the related receivables. In previous years revenue was recognized when received. In conjunction with the change to implement GASB No. 33, the University established a pledges receivable account. GAAP requires receivables to be classified by nature and source in descriptively-titled accounts. This receivables balance is reported net of a \$100,000 allowance for uncollectible pledges. The University has restated its beginning fund balances and the following table summarizes the related changes as of July 1, 2000.

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Funds:			
Pledges Receivable - Net	\$ -	\$1,839,000	\$ 1,839,000
Auxiliary Private Gifts Revenues	8,242,654	1,839,000	10,081,654
Fund Balance - Auxiliary Enterprises	14,827,980	1,839,000	16,666,980
Fund Balance - Fund Group Total	44,496,903	1,839,000	46,335,903

Effective July 1, 2000, the University corrected an error in the recording of payments for installment notes payable to third party lenders. Previously the University reported these payments as current fund expenditures and as an addition to the investment in plant funds subgroup as retirement of indebtedness (charged to current funds). This reporting treatment is incorrect because the note payments are with third-party lenders and not capital asset vendors. The note payments should be recorded in the retirement of indebtedness plant fund subgroup. This correction did not have an effect on the net increase (decrease) in fund balances for the year. The following table summarizes the changes as of July 1, 2000.

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### **NOTE 21 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)**

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Funds:			
Educational and General Expenditures			
Institutional Support	\$ 33,393,059	(47,215)	\$ 33,345,844
Nonmandatory Transfers from			
Unrestricted Current Funds	(13,365,502)	(47,215)	(13,412,717)
Retirement of Indebtedness Plant Funds:			
Retirement of Indebtedness Expenditures	5,244,366	40,029	5,284,395
Interest and Other Charges on			
Indebtedness Expenditures	4,507,547	7,186	4,514,733
Nonmandatory Transfers from			
Unrestricted Current Funds	635,020	47,215	682,235
Investment in Plant Funds:			
Addition Retirement of Indebtedness			
(Charged to Current Fund Expenditures)	125,029	(40,029)	85,000

#### ***Component Units***

Effective for fiscal year beginning January 1, 2000, the Trust and the Practice Plan early implemented the provisions of GASB Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The adoption of this new standard resulted in financial statement reformatting but had no effect on the transaction classes or account balances reported for the current year and requires no restatement adjustment.

### **NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS**

As of June 30, 2001, the discretely presented component units, the Trust and the Practice Plan, owe the University \$1,468,583 for the reimbursement of salary, fringe benefit, and other operating costs. The University reports the receivable in restricted current funds as "Grants and Contracts Receivable - Nongovernmental." There is no related liability reported in the "Component Units" column of the University's balance sheet because the University and component units have different fiscal year-ends. At December 31, 2000, the Trust and Practice Plan owed the University \$753,000 for salary reimbursements which is reported in the component units' financial statements as accounts payable. In fiscal year 2001, the University recorded rental income of \$64,460 from the component units which is included in unrestricted current funds and recorded \$10,064,881 for salary and fringe benefit costs and \$495,743 for other operating costs which are reported in non-governmental grants and contracts in restricted current funds for the year ended June 30, 2001. The Trust records the reimbursements as compensation and contributions expenses.

Contributions expense of the Trust for 2000 included the following payments to the University and its related parties:

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**NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)**

To the University of South Carolina School of Medicine in support of faculty and staff appointments and related operational costs	\$ 990,427
To the University of South Carolina in support of its various programs	216,835
To the University of South Carolina Educational Foundation in support of School of Medicine programs, development, and activities	73,000
To the University of South Carolina Development Foundation in support of the University of South Carolina	40,000
To the University of South Carolina Institute of Public Affairs in support of its programs	20,000

The following pages present condensed information from the audited financial statements as of and for the year ended December 31, 2000, for each of the discretely presented component units blended in the primary entity.

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**NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)**

Statement of Net Assets, December 31, 2000

	Trust				Practice Plan			Interfund Transactions	Totals (Memorandum Only) *
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total		
<b>ASSETS</b>									
Current Assets:									
Cash and Cash Equivalents	\$ -	\$ 393,216	\$ 7,365,702	7,758,918	\$ 1,772,597	\$ -	\$ 1,772,597	\$ -	\$ 9,531,515
Investments	-	5,216,071	1,200,000	6,416,071	-	-	-	-	6,416,071
Patient Accounts Receivable - Net	-	-	-	-	2,831,960	-	2,831,960	-	2,831,960
Other Receivables	-	23,693	53,864	77,557	783,859	-	783,859	-	861,416
Prepaid Items	-	14,257	-	14,257	16,455	-	16,455	-	30,712
Due from Practice Plan Operations Fund	-	1,745,268	-	1,745,268	-	-	-	(1,745,268)	-
Due from (to)									
Trust Support Fund	340,200	(340,200)	-	-	-	-	-	-	-
Due from Trust Building and Equipment Fund	170,288	78,732	(249,020)	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>510,488</b>	<b>7,131,037</b>	<b>8,370,546</b>	<b>16,012,071</b>	<b>5,404,871</b>	<b>-</b>	<b>5,404,871</b>	<b>(1,745,268)</b>	<b>19,671,674</b>
Property:									
Buildings and Improvements	-	-	8,445,860	8,445,860	-	1,993,636	1,993,636	-	10,439,496
Medical, Furniture and Office Equipment	-	-	781,991	781,991	-	4,773,190	4,773,190	-	5,555,181
Accumulated Depreciation	-	-	(2,337,608)	(2,337,608)	-	(3,658,345)	(3,658,345)	-	(5,995,953)
<b>Net Property</b>	<b>-</b>	<b>-</b>	<b>6,890,243</b>	<b>6,890,243</b>	<b>-</b>	<b>3,108,481</b>	<b>3,108,481</b>	<b>-</b>	<b>9,998,724</b>
Other Assets:									
Unamortized Loan Costs	-	-	15,427	15,427	-	-	-	-	15,427
<b>Total Assets</b>	<b>\$ 510,488</b>	<b>\$ 7,131,037</b>	<b>\$ 15,276,216</b>	<b>\$ 22,917,741</b>	<b>\$ 5,404,871</b>	<b>\$ 3,108,481</b>	<b>\$ 8,513,352</b>	<b>\$ (1,745,268)</b>	<b>\$ 29,685,825</b>

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**NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)**

Statement of Net Assets, December 31, 2000, (Continued)

	Trust				Practice Plan				Totals (Memorandum Only) *
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total	Interfund Transactions	
LIABILITIES									
Current Liabilities:									
Accounts Payable	\$ 29,336	\$ 508,848	\$ 39,855	578,039	\$ 1,008,424	\$ -	\$ 1,008,424	\$ -	\$ 1,586,463
Accrued Compensated Absences	22,972	39,190	-	62,162	633,614	-	633,614	-	695,776
Accrued Retirement Contribution Payable	-	28,403	-	28,403	-	-	-	-	28,403
Capital Leases Payable, Current	-	-	1,616	1,616	6,900	132,764	139,664	-	141,280
Revenue Bonds, Current	-	-	1,205,000	1,205,000	-	-	-	-	1,205,000
Due to Trust Support Fund	-	-	-	-	1,745,268	-	1,745,268	(1,745,268)	-
Total Current Liabilities	52,308	576,441	1,246,471	1,875,220	3,394,206	132,764	3,526,970	(1,745,268)	3,656,922
Long-term Liabilities:									
Capital Leases	-	-	-	-	9,555	262,903	272,458	-	272,458
Revenue Bonds	-	-	10,180,000	10,180,000	-	-	-	-	10,180,000
Total Long-term Liabilities	-	-	10,180,000	10,180,000	9,555	262,903	272,458	-	10,452,458
Total Liabilities	52,308	576,441	11,426,471	12,055,220	3,403,761	395,667	3,799,428	(1,745,268)	14,109,380
NET ASSETS									
Unrestricted:									
Dean's Academic Enhancement Subfund, Designated	-	3,084,191	-	3,084,191	-	-	-	-	3,084,191
Department Subfund, Designated	-	3,112,925	-	3,112,925	-	-	-	-	3,112,925
Department Operations Subfund Designated for Clinical Operations	-	184,933	-	184,933	-	-	-	-	184,933
Designated for Trust Operations	-	-	-	-	2,001,110	-	2,001,110	-	2,001,110
Investment in Fixed Assets	458,180	-	3,849,745	458,180	-	2,712,814	2,712,814	-	458,180
Accumulated Other Comprehensive Income	-	-	-	3,849,745	-	-	-	-	6,562,559
	-	172,547	-	172,547	-	-	-	-	172,547
Total Net Assets	\$ 458,180	\$ 6,554,596	\$ 3,849,745	\$ 10,862,521	\$ 2,001,110	\$ 2,712,814	\$ 4,713,924	\$ -	\$ 15,576,445

\*Interfund amounts have not been eliminated.

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**NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)**

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended December 31, 2000

	Trust				Practice Plan			Interfund Transactions	Totals (Memorandum Only) *
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total		
<b>REVENUES</b>									
Patient Charges, Net of Contractual Adjustments and Refunds	\$ -	\$ -	\$ -	\$ -	\$ 22,066,799	\$ -	\$ 22,066,799	\$ -	\$ 22,066,799
Other Professional Income	-	-	-	-	7,473,901	-	7,473,901	-	7,473,901
Contributions to Dean's Academic Enhancement Subfund	-	2,105,983	-	2,105,983	(2,105,983)	-	(2,105,983)	-	-
Contributions to Departmental Operations Subfund	-	300,854	-	300,854	(300,854)	-	(300,854)	-	-
Contributions from Dean's Academic Enhancement Subfund	-	(180,366)	-	(180,366)	180,366	-	180,366	-	-
Contributions to Trust from Other Sources	-	1,018,223	-	1,018,223	-	-	-	-	1,018,223
Investment Income	433,781	238	211,757	645,776	98,979	-	98,979	-	744,755
Rental Income	-	-	1,621,038	1,621,038	-	-	-	(1,469,639)	151,399
Other Income	-	448,279	60	448,339	1,886,613	-	1,886,613	(363,463)	1,971,489
<b>Total Revenues</b>	<b>433,781</b>	<b>3,693,211</b>	<b>1,832,855</b>	<b>5,959,847</b>	<b>29,299,821</b>	<b>-</b>	<b>29,299,821</b>	<b>(1,833,102)</b>	<b>33,426,566</b>
<b>EXPENSES</b>									
Non-faculty Compensation	70,506	414,141	-	484,647	6,932,710	-	6,932,710	-	7,417,357
Rent	-	-	64,460	64,460	1,428,491	-	1,428,491	(1,469,639)	23,312
Departmental Support	-	739,039	-	739,039	-	-	-	-	739,039
Utilities and Telephone	-	641	249,502	250,143	254,556	-	254,556	-	504,699
Supplies	3,580	80,400	-	83,980	3,068,668	-	3,068,668	-	3,152,648
Dues, Licenses, Journals	-	28,073	-	28,073	329,658	-	329,658	-	357,731
Travel, Meetings, Special Events	-	92,439	-	92,439	405,738	-	405,738	-	498,177
Insurance	-	1,173	24,318	25,491	489,606	-	489,606	-	515,097
Contractual Services	80,321	396,542	-	476,863	1,116,360	-	1,116,360	(363,463)	1,229,760
Minor Equipment, Renovations, Repair and Maintenance	61,908	371,337	-	433,245	282,937	-	282,937	-	716,182
Recruitment	-	47,999	-	47,999	54,924	-	54,924	-	102,923
Resident and Student Expense	-	73,827	-	73,827	116,105	-	116,105	-	189,932
Contributions	145,236	1,419,086	-	1,564,322	-	-	-	-	1,564,322
Building Maintenance and Security	-	-	274,757	274,757	-	-	-	-	274,757
Management Fees	-	-	93,396	93,396	-	-	-	-	93,396

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**NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)**

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended December 31, 2000, (Continued)

	Trust				Practice Plan			Interfund	Totals
			Building and Equipment	Total		Building and Equipment	Total	Transactions	(Memorandum Only) *
	Operations	Support			Operations				
<b>EXPENSES (CONTINUED)</b>									
Interest	-	-	441,119	441,119	-	52,611	52,611	-	493,730
Depreciation and Amortization	-	-	288,109	288,109	-	537,017	537,017	-	825,126
Marketing	-	81,275	-	81,275	3,649	-	3,649	-	84,924
Bad Debts	-	-	-	-	823,208	-	823,208	-	823,208
Other	5,000	186,519	187,773	379,292	270,194	-	270,194	-	649,486
Faculty Compensation and Professional Expenses	-	-	-	-	13,205,506	-	13,205,506	-	13,205,506
<b>Total Expenses</b>	<b>366,551</b>	<b>3,932,491</b>	<b>1,623,434</b>	<b>5,922,476</b>	<b>28,782,310</b>	<b>589,628</b>	<b>29,371,938</b>	<b>(1,833,102)</b>	<b>33,461,312</b>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>67,230</b>	<b>(239,280)</b>	<b>209,421</b>	<b>37,371</b>	<b>517,511</b>	<b>(589,628)</b>	<b>(72,117)</b>	<b>-</b>	<b>(34,746)</b>
<b>INTERFUND TRANSFERS</b>									
Support from Practice Plan to Trust	-	1,782,996	-	1,782,996	(1,782,996)	-	(1,782,996)	-	-
Transfer (to) from Other Funds	-	(2,180,884)	43,910	(2,136,974)	1,064,223	1,072,751	2,136,974	-	-
<b>Total</b>	<b>-</b>	<b>(397,888)</b>	<b>43,910</b>	<b>(353,978)</b>	<b>(718,773)</b>	<b>1,072,751</b>	<b>353,978</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues and Transfers In over Expenses and Transfers Out</b>	<b>67,230</b>	<b>(637,168)</b>	<b>253,331</b>	<b>(316,607)</b>	<b>(201,262)</b>	<b>483,123</b>	<b>281,861</b>	<b>-</b>	<b>(34,746)</b>
<b>Other Comprehensive Income (Loss)</b>	<b>-</b>	<b>(354,746)</b>	<b>-</b>	<b>(354,746)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(354,746)</b>
<b>Net Assets, Beginning of Year</b>	<b>390,950</b>	<b>7,546,510</b>	<b>3,596,414</b>	<b>11,533,874</b>	<b>2,202,372</b>	<b>2,229,691</b>	<b>4,432,063</b>	<b>-</b>	<b>15,965,937</b>
<b>Net Assets, End of Year</b>	<b>\$ 458,180</b>	<b>\$ 6,554,596</b>	<b>\$ 3,849,745</b>	<b>\$ 10,862,521</b>	<b>\$ 2,001,110</b>	<b>\$ 2,712,814</b>	<b>\$ 4,713,924</b>	<b>\$ -</b>	<b>\$ 15,576,445</b>

**UNIVERSITY OF SOUTH CAROLINA**  
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**NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED )**

Statement of Cash Flows for the Year Ended December 31, 2000

	Trust				Practice Plan				Totals (Memorandum Only)
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total	Interfund Transactions	
<b><u>Cash Flows From Operating Activities</u></b>									
Cash Receipts from Patients, Third-party Payors and Agencies	\$ -	\$ -	\$ -	\$ -	\$ 28,804,433	\$ -	\$ 28,804,433	\$ -	\$ 28,804,433
Cash Paid to Suppliers	(150,809)	(1,360,225)	(937,475)	(2,448,509)	(8,326,007)	-	(8,326,007)	-	(10,774,516)
Cash Paid for Faculty and Non-Faculty Compensation	(70,506)	(405,390)	-	(475,896)	(20,456,303)	-	(20,456,303)	-	(20,932,199)
Other Cash Receipts (Payments), Net	221,315	1,379,540	1,611,839	3,212,694	148,420	1,020,140	1,168,560	-	4,381,254
<b>Net Cash Provided by (Used for) Operating Activities</b>	-	(386,075)	674,364	288,289	170,543	1,020,140	1,190,683	-	1,478,972
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>									
Proceeds from Issuance of Long-term Debt	-	-	10,600,000	10,600,000	-	-	-	-	10,600,000
Long-term Debt and Capital Lease Principle Repayments	-	-	(4,952,358)	(4,952,358)	(6,900)	(169,634)	(176,534)	-	(5,128,892)
Interest Paid on Long-term Debt and Capital Leases	-	-	(441,119)	(441,119)	-	(52,611)	(52,611)	-	(493,730)
Cash Paid for Property and Equipment	-	-	(168,062)	(168,062)	-	(797,895)	(797,895)	-	(965,957)
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>	-	-	5,038,461	5,038,461	(6,900)	(1,020,140)	(1,027,040)	-	4,011,421
<b><u>Cash Flows from Investing Activities</u></b>									
Proceeds from Sales and Maturities of Investments	-	4,833,770	772,038	5,605,808	-	-	-	-	5,605,808
Cash Paid for Investments	-	(6,496,582)	-	(6,496,582)	-	-	-	-	(6,496,582)
Cash Received for Interest and Dividends	-	434,019	211,757	645,776	-	-	-	-	645,776
<b>Net Cash Provided by (Used for) Investing Activities</b>	-	(1,228,793)	983,795	(244,998)	-	-	-	-	(244,998)
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	-	(1,614,868)	6,696,620	5,081,752	163,643	-	163,643	-	5,245,395
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	-	2,008,084	669,082	2,677,166	1,608,954	-	1,608,954	-	4,286,120
<b><u>Cash and Cash Equivalents, End of Year</u></b>	\$ -	\$ 393,216	\$ 7,365,702	\$ 7,758,918	\$ 1,772,597	\$ -	\$ 1,772,597	\$ -	\$ 9,531,515
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u></b>									
Excess (Deficiency) of Revenues and Transfers In over Expenses and Transfers Out	\$ 67,230	\$ (637,168)	\$ 253,331	\$ (316,607)	\$ (201,262)	\$ 483,123	\$ 281,861	\$ -	\$ (34,746)
Adjustments to Reconcile Excess (Deficiency) of Revenues and Transfers over Expenses to Net Cash Provided (Used) by Operating Activities:									
Depreciation and Amortization	-	-	288,109	288,109	-	537,017	537,017	-	825,126
(Increase) Decrease in Assets:									
Patient Accounts Receivable	-	-	-	-	47,592	-	47,592	-	47,592
Other Receivables	21,864	(1,693)	(51,757)	(31,586)	546,349	-	546,349	-	514,763
Prepaid Expenses and Other Assets	-	34,273	1,404	35,677	19,789	-	19,789	-	55,466
Interfund Receivable	(87,974)	-	-	(87,974)	-	-	-	87,974	-
Increase (Decrease) in Liabilities:									
Accounts and Accrued Interest Payable	2,256	317,289	(48,268)	271,277	(318,087)	-	(318,087)	14,021	(32,789)
Accrued Compensated Absences	(3,376)	26,732	-	23,356	91,271	-	91,271	-	114,627
Accrued Retirement	-	(11,067)	-	(11,067)	-	-	-	-	(11,067)
Interfund Payable	-	(114,441)	231,545	117,104	(15,109)	-	(15,109)	(101,995)	-
<b>Net Cash Provided by (Used for) Operating Activities</b>	\$ -	\$ (386,075)	\$ 674,364	\$ 288,289	\$ 170,543	\$ 1,020,140	\$ 1,190,683	\$ -	\$ 1,478,972

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 23 - RISK MANAGEMENT**

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all of those risks except business interruption insurance coverage and directors and officers personal liability for fiduciary matters. The University sees the only reasonable application of business interruption insurance to be in university housing. Further, the University believes that the risk of a fiduciary claim against directors and officers is low in the public arena. Management believes coverages for all other risks of loss are sufficient to preclude any significant uninsured losses for the covered risks. Claims have been settled within the limits of the coverages in each of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered hospitals, employees, third- and fourth-year medical students, and student health practitioners at student health services.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 23 - RISK MANAGEMENT (CONTINUED)**

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The University also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation Fund.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft, misappropriation and for destruction up to \$500,000.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted current fund. The University reports liabilities for underinsured risks of loss when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

**NOTE 24- NOTES RECEIVABLE**

Effective August 11, 1998, the University entered into an agreement with the University of South Carolina Educational Foundation, a related party, as authorized by South Carolina Code of Laws, Section 59-101-410. In accordance with this section, the University may lend certain of its endowment funds and auxiliary enterprises funds to the University of South Carolina Educational Foundation. The agreement was entered into to maximize investment earnings. Under terms of the agreement, the University will earn interest on the principal and cumulative interest balances at a monthly rate as determined by the South Carolina State Treasurer. The University reports the monies lent to the Foundation in its endowment funds (\$13,793,910) and unrestricted current funds (\$6,150,000). The principal balances of these notes receivable and the related cumulative accrued interest receivable at June 30, 2001, were \$19,943,910 and \$3,662,917. Fiscal year 2001 interest earnings of \$1,489,949 are reported as interest and endowment income in the respective funds.

**UNIVERSITY OF SOUTH CAROLINA**  
Notes to Financial Statements  
June 30, 2001

**NOTE 25 - DETAILS OF FUND BALANCES**

Details of fund balances and net assets of the Trust and Practice Plan component units as of June 30, 2001, are as follows:

	<u>Current Funds</u>		<u>Loan Funds</u>	<u>Endowment and Similar Funds</u>	<u>Plant Funds</u>			<u>Component Units</u>
	<u>Unrestricted</u>	<u>Restricted</u>			<u>Unexpended</u>	<u>Retirement of Indebtedness</u>	<u>Investment in Plant</u>	
Unrestricted:								
Unexpended, Designated	\$ -	\$ -	\$ -	\$ -	\$17,361,466	\$ -	\$ -	\$ -
Endowment	-	-	-	82,221	-	-	-	-
Quasi-Endowment	-	-	-	12,741,248	-	-	-	-
Unrestricted, Unallocated	55,324,653	-	-	-	-	-	-	-
Deans Academic Enhancement Subfund, Designated	-	-	-	-	-	-	-	3,084,191
Department Subfund, Designated	-	-	-	-	-	-	-	3,112,925
Designated for Trust Support	-	-	-	-	-	-	-	184,933
Designated for Clinical Operations	-	-	-	-	-	-	-	2,001,110
Designated for Trust Operations	-	-	-	-	-	-	-	458,180
Net Investment in Plant	-	-	-	-	-	-	839,724,875	-
Restricted:								
Contracts and Grants	-	9,117,651	-	-	-	-	-	-
Scholarships	-	1,489,086	-	-	-	-	-	-
U.S. Government Grants								
Refundable	-	-	17,817,328	-	-	-	-	-
University Loan Funds	-	-	2,151,275	-	-	-	-	-
Endowment	-	-	-	10,292,338	-	-	-	-
Quasi-Endowment	-	-	-	900,049	-	-	-	-
Term Endowment	-	-	-	57,259	-	-	-	-
Unexpended	-	-	-	-	58,276,900	-	-	-
Retirement of Indebtedness	-	-	-	-	-	1,689,190	-	-
Investment in Fixed Assets	-	-	-	-	-	-	-	6,562,559
Accumulated Other Comprehensive Income	-	-	-	-	-	-	-	172,547
<b>Totals</b>	<u>\$55,324,653</u>	<u>\$10,606,737</u>	<u>\$19,968,603</u>	<u>\$24,073,115</u>	<u>\$75,638,366</u>	<u>\$1,689,190</u>	<u>\$839,724,875</u>	<u>\$15,576,445</u>

**UNIVERSITY OF SOUTH CAROLINA**

Notes to Financial Statements

June 30, 2001

**NOTE 26 - SUBSEQUENT EVENTS**

On July 31, 2001, the University issued \$34,000,000 in state institution bonds to finance new construction and renovation projects. The \$34,000,000 Series 2001B bonds with an average interest rate of 4.81 percent will be amortized over a 20-year term. The first payment (interest only) of \$802,412 is due January 1, 2002. Semi-annual principal payments begin July 1, 2002. On that date, the required principal and interest payments are \$1,055,000 and \$802,412.

**NOTE 27 - FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board has issued Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments, and Statement No. 35 Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities. These new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

# State of South Carolina



## Office of the State Auditor

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### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 12, 2001

The Honorable Jim Hodges, Governor  
and  
Members of the Board of Trustees  
University of South Carolina  
Columbia, South Carolina

We have audited the basic financial statements of the University of South Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 12, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Faculty House of Carolina, Incorporated, and the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan, component units of the University were not audited in accordance with *Government Auditing Standards*.

#### Compliance

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

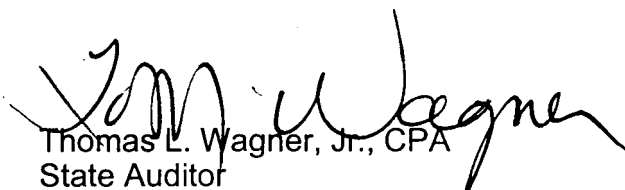
#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to

The Honorable Jim Hodges, Governor  
and  
Members of the Board of Trustees  
University of South Carolina  
October 12, 2001

the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governor and of the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA  
State Auditor

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